# QUARTERLY JOURNAL

Comptroller of the Currency
Administrator of National Banks

VOLUME 2
NUMBER 3

# Office of the Comptroller of the Currency
# September 1983

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| Comptroller | C T Conover |

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## Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term

The OCC regulates national banks by its power to

- Approve or deny applications for new charters branches, capital or other changes in corporate or banking structure.
- Examine the banks.
- Take supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing bank practices and issuance of cease and desist orders, and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure

The OCC divides the United States into geographical areas which are currently being reorganized The reorganization began on January 1, 1983, and will take place over an 18-month period The OCC will change the geographic boundaries of its field operations by consolidating 12 regions into six districts

The Office is funded through assessments on the assets of national banks

## The Comptroller

C T Conover became the 25th Comptroller of the Currency on December 16 1981

By statute, the Comptroller serves a concurrent term as a Director of the Federal Deposit Insurance Corporation, a member of the Federal Financial Institutions Examination Council and a nonvoting member of the Depository Institutions Deregulation Committee.

A former management consultant Mr Conover has dealt extensively with commercial banks and other financial institutions and has concentrated on solving problems in the areas of strategic planning, financial management and operations improvement.

He received a B A degree from Yale University in 1960 and an M B A in finance from the University of California at Berkeley in 1965

The Quarterly Journal is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year in March June September and December The *Quarterly Journal* includes policy statements, recommendations on banking structure, selected speeches and testimony, material released in the interpretive letter series, summaries of enforcement actions, statistical data and other information of interest to the administration of national banks. Comments, suggestions, or questions may be sent to the Communications Division, Office of the Comptroller of the Currency, Washington, DC 20219 Subscriptions are available for $50 a year by writing to the Subscription Services Center, The Office of the Comptroller of the Currency, Washington, DC 20219

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# Quarterly Journal

## Office of the Comptroller of the Currency

C. T. Conover

Comptroller of the Currency

The Administrator of National Banks

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# Financing Small Business Development

## Public Pension Fund/Local Bank Partnerships

Both public pension funds and banks have undergone significant economic and legal changes during the past several years and this trend is expected to accelerate throughout the 1980s. At the same time, America's economy has shifted its reliance on large heavy industries to smaller service and high technology firms.

There is growing recognition by state and local officials that public pension funds have a direct vested interest in the economic vitality of their communities because of the clear relationship between government's continued ability to contribute to public pension systems and the size of its tax base. A declining local economy will eventually lead to reduced government revenues, including cutbacks in pension fund contributions. It will also mean a decrease in the active government workforce contributing to the pension fund.

Most of those government officials have also perceived the futility of smokestack chasing (attracting large businesses from other states to their state) and have refocused their economic strategies on assisting new and smaller businesses in their own communities. Several major studies have shown that small businesses are a key element of local, state and national economies. They create most of the new jobs, generate more tax revenues, train more new employees and produce more innovations than larger firms. In several important industries such as manufacturing and high technology, small businesses are often more profitable than large businesses, even after business failures are taken into account.

At the same time, many small businesses have had problems obtaining long-term, fixed-rate financing for new equipment, plant expansion, and research and development. Several recent studies have indicated that there is a "capital gap"; many small businesses, regardless of their creditworthiness and strength, have difficulties obtaining financing. The principal reason is that commercial banks and savings and loan associations, by far the largest sources of those funds to small businesses, are finding it increasingly difficult to provide long-term, fixed-rate financing. That difficulty arises because there is not a secondary market in which to sell the loans and it is difficult to attract long-term, fixed-rate deposits.

This is where pension funds, particularly public pension funds, can play an important role. As large, predominantly passive investors, they have increasingly been making long-term investments in residential mortgages and venture capital pools. Some of those funds have been targeted to in-state investments and are viewed by pension fund trustees and managers as prudent and profitable investments that also provide the necessary diversity required by the "prudent person rule" most pension funds follow. However, according to a recent Municipal Finance Officers Association (MFOA) study of public pension funds, which represent nearly 80 percent of total public fund assets (excluding federal government funds), far fewer investments have gone to small business firms, particularly businesses that are not high-technology.

Several state and local government pension funds have formed partnerships with local banks and savings and loans to provide long-term financing for small business development. With minor adjustments tailored to the needs of a particular pension fund, local lender and small business environment, one or more of the following three case studies can be applied virtually anywhere in this country.

### Purchasing Conventional Commercial Mortgage Loans on the Secondary Market

Since 1977, the Oregon Public Employees Retirement System (PERS) has purchased long-term, fixed-rate conventional commercial mortgage loans from financial institutions in the state. As of December 1982, over $214 million of commercial loans had been purchased; nearly $89 million were purchased in 1978 alone. High interest rates in 1981 and 1982 sharply reduced the program. However, activity during the first 5 months of 1983 increased to 1979–80 levels.

The program is effective and uncomplicated. Each participating bank or savings and loan in the state executes a loan purchase agreement with PERS. The agreement is a commitment by PERS to purchase any commercial mortgage loan originated by an Oregon lender at prevailing interest rates. The loans are usually amortized over 25 years and are sold to PERS in

NOTE: The opinions expressed in this article are those of the authors and do not necessarily represent the views of the Comptroller of the Currency or the National Federation of Independent Business.

blocks of $1 to $2 million. The average loan size is only $200,000 to $250,000 and the most active lenders are small savings and loans and community banks in predominantly rural areas.

The agreement also requires the lender to retain 10 percent of the loan. This requirement is similar to the Small Business Administration's (SBA) guaranteed loan program. However, unlike that program, the PERS agreement requires the lender to continue monthly payments to PERS if a borrower is delinquent on his or her loan payments. If the borrower defaults, the PERS and the lender share the risk on a pro rata basis (90–10). During the 6½ years of the program, there has been only one default.

## The Bank as an Agent for the Pension Fund

On November 24, 1982, the two major pension funds for the City of Baltimore (Baltimore City Employees and Fire and Police Retirement Systems) entered into a unique agreement with The Savings Bank of Baltimore. The two funds agreed to a combined commitment of up to $20 million for residential mortgage loans and $10 million for commercial mortgage loans (permanent and construction/permanent) on properties located in the city.

In close consultation with the city's housing department and economic development corporation, a lender was selected from bidders on the basis of prior experience and the service/origination fees to be paid. The pension funds provide all financing for loans originated by the agreement. All but two of the commercial loans have been conventional (without SBA guarantees).

As of April 1, 1983, the bank had committed over $2.8 million of commercial loans, of which $1 million had been disbursed. An additional $4 million was being processed for commitment. The commercial loan agreement provides for additional funds from the two systems if all parties agree. Other key provisions of the agreement include:

- A fixed interest rate for 15 years, with a minimum rate equal to the AA bond rate plus 1 percent and a maximum amortization period of 25 years.
- An annual service fee of ¼ of 1 percent for loans of $1 million or under and ⅛ of 1 percent for loans exceeding $1 million.
- A minimum loan amount of $250,000, although the bank may approve smaller amounts.
- An agreement by the bank to use its standard underwriting criteria.
- A minimum origination fee of 2 percent of the original balance for permanent loans and 3 percent for construction/permanent loans. All origination fees are divided between the bank and the system.
- A nonrefundable application fee of $200.

According to the executive director of the Baltimore Economic Development Corporation (BEDCO), the program was deliberately designed to leverage private and public funds for local economic development, such as Urban Development Action Grants (UDAG) and the SBA 503 Certified Development Company program. Over ⅓ of the committed loans were "503" first mortgage loans (not SBA insured), which leveraged an equal amount of direct SBA below-market rate loans and equity from the small business borrower.

## Federally Insured Development Deposits

An innovative way pension funds could invest in smaller firms is the use of federally insured long-term development deposits in selected local financial institutions which are insured by the FDIC or the FSLIC.

Both private and public pension plans enjoy a unique advantage over other institutional investors: each beneficial owner (employee) of the fund is insured up to $100,000 separately, provided certain conditions are met. Assuming a substantial percentage of the fund's assets are not deposited in one insured bank and the conditions of the FDIC or FSLIC regulations are met, the principal and interest are fully insured by the federal government. Conversely, the insured bank receiving such deposits would not be required to reserve any of its assets as collateral for any amount deposited over $100,000.

The New Mexico Severance Tax Fund is the only known state fund which has used long-term development deposits to stimulate local housing and economic development. As of May 26, 1983, the fund had a balance of $647 million in most of the state's small- and medium-sized banks and savings and loans. The terms of the deposits ranged from 6 months to 8 years, with an average of 2 years per account. The interest rate is fixed at the prevailing U.S. Treasury bond rate for a comparable maturity. Since the Severance Tax Fund is not a pension fund, participating banks are required to reserve 50 percent of the total amount deposited as collateral.

There are, however, no targeting requirements attached to those development deposits. An evaluation of the program conducted for the New Mexico Governor's Office by Beldon Daniels, a consultant in development finance, found that the lack of any targeting requirement nullified the principal purpose of the program, which was to recycle state funds to promote

new jobs, housing and business development in the state. Specifically, the study concluded that:

- A significant quantitative relationship between STPF deposits and the total amount of lending activity generated by a bank does not appear to exist.
- Most banks make loans or participate in loans to some out-of-state borrowers. This will reduce the economic and social benefits that would result from in-state deposit of STPF funds.

Based on the limited New Mexico experience, an effective development deposit program established to stimulate in-state small business development should consider:

- The size of the targeted business—SBA 7(a) guaranteed loan or SBIC size limits could be readily adopted since they are familiar to most lenders.
- Minimum term of the deposit—The tenure of the deposit must be matched with the minimum tenure of the loans to be targeted to small businesses.
- Deposit interest rate—The easiest and most equitable interest rate criteria appears to be the U.S. Treasury bond rate for a period of time comparable to the development deposit.
- Term of financing—The bank and the pension fund should negotiate the percentage of the development deposits to be loaned to targeted businesses. The minimum loan terms should equal the length of the development deposit.
- Monitoring—The intended effectiveness of the program should be determined through periodically monitoring information from the bank. The form of that information should be negotiated between the fund and the bank.

Aside from providing the advantage of federally insured deposits, this plan requires little paperwork. Although the interest rate is lower than it would be if the fund were purchasing the loans directly from the bank, the bank assumes full responsibility for the credit risk.

## Future Developments

Despite those local initiatives, the national market for small business finance remains unsophisticated compared to the housing finance market. For example, in the first 6 months of this year alone, some $34 billion in newly originated single family mortgages were pooled for pass-through securities. The 1982 MFOA survey estimated that over $6.0 billion was invested by public pension funds in housing pass-through securities, another $1.6 billion in conventional mortgage-backed securities and $2.8 billion in FHA-insured residential mortgages. At the same time, only $46.4 million was invested in venture capital pools, $15.2 million in public equities of smaller firms and $55.7 million in SBA-guaranteed loans.

Although the SBA secondary market is the only national market for purchasing small business loans, a 1983 GAO study found that its potential was not fully developed. Although the situation has improved, less than 17 percent of all SBA-guaranteed loans originated since 1977 have been sold in the secondary market.

Moreover, the SBA loan guarantee program has been reduced during the past few years. The budget authority for guaranteed loans was reduced from $3.7 billion in 1981 to $2.31 billion in 1982. Budget submissions for 1983 and 1984 were dropped to $1.9 billion each year. Finally, although 74 percent of the SBA loans reported by responding banks were for 6 years or more, only 13 percent of their total small business portfolios were SBA-guaranteed loans. For less active lenders, it is assumed that the figure is substantially lower.

Recognizing the need to improve and expand the secondary market, SBA has initiated a 1-year pilot program in cooperation with the Minnesota Small Business Finance Agency (MSBFA). Briefly, the program requires MSBFA to sell taxable, long-term fixed-rate bonds to investors in $5 to $10 million lots.

Proceeds from the bonds are placed with a trustee for investment in SBA-guaranteed loans originated by Minnesota banks. As small businesses pay the banks, the banks in turn pay MSBFA, which then retires the bonds in accordance with a predetermined schedule. The SBA is evaluating the results of this pilot program to determine its effectiveness and possible application nationwide.

The SBA Capital Access Committee has recommended several steps for improving the secondary market, including the development of a pooling program which would make it more attractive for large institutional investors such as pension funds to purchase large blocks ($10 to $25 million) of fixed-rate loans. Such a pool would be competitive with existing housing pass-through securities offered by GNMA, FNMA and Freddie Mac.

Other potential future developments include

- A privately insured small business loan pool similar to private mortgage insurance pools for housing,
- Pooling long-term, fixed-rate pension funds with private funds available from Business Develop

ment Credit Corporations authorized by over two-thirds of the states.

- Pension funds purchasing long-term fixed-rate commercial first mortgage loans from financial institutions participating in the SBA 503 Certified Development Company program, available in over 400 localities.

Local financial institutions are respected intermediaries in their local communities and have long recognized the important role small business competition and job creation have had in the local economy. Working closely with public pension funds, they can provide the important leadership for other institutional investors to follow, such as church, union and corporate pension funds, which are searching for prudent and innovative investments to help revitalize America's competitive marketplace and create millions of new jobs.

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# Operations of National Banks

The first quarter of 1983 was the first full quarter of the economic recovery. First quarter annualized economic growth, however, was only 2.5 percent—well below the 7 percent average registered during the first quarters of the last several recoveries. Although the average prime rate fell a full percentage point to 10½ percent from its average December level, short-term credit demands of business remained weak. Inflationary pressures continued to ease, and the consumer price index rose only 3 6 percent during the 12 months ending in March.

The most important event affecting all depository institutions during the first quarter was the success of the newly authorized money market deposit account (MMDA) and, to a lesser extent, the Super NOW account and the transformations they caused in balance sheets and operating statements. Weekly flows to these accounts in January reached highs of $35 billion, and by the end of the first quarter, almost $330 billion had been deposited in these accounts Commercial banks attracted almost $210 billion, or 58 percent of the total, thereby increasing their market share of all personal savings. National banks took in $123 billion, or almost 59 percent of the total commercial bank share

While these accounts were very successful, it is estimated that the majority of the money in these new accounts came from other deposit accounts, particularly savings and small denomination time accounts. The shorter maturities of these new accounts will present new challenges to the asset and liability management of depository institutions over the coming months and during future interest rate cycles.

Profitability of large national banks, those with more than $300 million in total assets, during the first quarter of 1983, measured by the ratio of net income to average assets, improved over the comparable year earlier quarter. Boosted by wider average rate spreads and by increases in interest-earning assets, the annualized return on average assets was 0 78 percent for the first quarter of 1983 compared with 0.74 percent for the comparable period in 1982

Small banks reported income for the first time on a quarterly basis. Their first quarter return on assets was 1.13 percent. This compared favorably with 1 12 percent for 1982. (Because small banks just began reporting quarterly, comparisons will be confined to national banks with assets greater than $300 million.)

Other measures of bank performance and condition during the first quarter were mixed. Profitability measured before securities transactions was down Liquidity and capital ratios improved, but loan losses increased, having a dampening effect upon reported results.

## Earnings

Consolidated foreign and domestic net income of large national banks during the first quarter of 1983 was $1 6 billion, 3.1 percent above the first quarter of 1982. While income before securities transactions was down almost 4 percent, income from securities transactions shifted from a $160 million loss in the first quarter of 1982 to a profit of just over $6 million in the first quarter of 1983

Despite these rather mixed profitability results, common dividends declared by large national banks jumped 17.7 percent to $709 million in the first quarter. As a result, their size-weighted payout ratio increased from 39 percent to almost 45 percent between March 1982 and March 1983.

The general decline in interest rates had a positive effect on bank income. While total interest income of national banks declined almost 13 percent to $24.8 billion in the first quarter of 1983, total interest expense fell more steeply—21 percent to $17.1 billion. Net interest income, therefore, grew 8 percent to $7.8 billion between the first quarters of 1982 and 1983 Consolidated foreign and domestic non-interest income reached $2.9 billion in the first quarter of 1983, 17 percent above the year before.

## Expenses

Provisions for loan losses increased in the first quarter of 1983, lagging, as is customary, the performance and condition of the general economy This increase had an extremely depressing effect upon total earnings results and comparisons. The increase in provisions, for example, exceeded the entire increase in non-interest income and, in a slightly different comparison, was more than half of the increase in net interest income

First quarter 1983 provisions for loan losses were $1.1 billion, 80 percent above the $619 million of the first quarter of 1982 The increase between the first quarters of 1982 and 1983 equalled $494 million, compared to the $442 million or 97 percent increase [illegible]

*Assets, liabilities and capital accounts of national banks, March 31, 1982, and March 31, 1983*
(Dollar amounts in millions)

| | March 31, 1982 4,468 banks | | March 31, 1983 4,654 banks | | Change March 31, 1982 March 31 1983 Fully consolidated | |
|---|---|---|---|---|---|---|
| | Consolidated foreign and domestic | Domestic offices | Consolidated foreign and domestic | Domestic offices | Amount | Percent |
| **Assets** | | | | | | |
| Cash and due from depository institutions | $ 198,329 | $108,271 | $ 206,204 | $ 119 323 | $ 7,875 | 3 97 |
| U S Treasury securities | 49,585 | 49,402 | 67,934 | 67,760 | 18,349 | 37 01 |
| Obligations of other U S government agencies and corporations | 33,690 | 33,664 | 37,135 | 37,112 | 3,445 | 10 23 |
| Obligations of states and political subdivisions | 81,467 | 80,774 | 80,713 | 80,111 | −754 | − 93 |
| All other securities | 16,984 | 11,590 | 19,877 | 13 834 | 2,893 | 17 03 |
| Total securities | 181,726 | 175,429 | 205,659 | 198,817 | 23,933 | 13 17 |
| Federal funds sold and securities purchased under agreements to resell | 48,811 | 48,275 | 55,582 | 55,348 | 6,771 | 13 87 |
| Total loans (excluding unearned income) | 675,128 | 537,007 | 728 762 | 589,956 | 53,634 | 7 94 |
| Allowance for possible loan losses | 7,036 | 6,822 | 8,395 | 8,133 | 1,359 | 19 31 |
| Net loans | 668,092 | 530,185 | 720,367 | 581,823 | 52,275 | 7 82 |
| Lease financing receivables | 10,609 | 8,767 | 10,883 | 9,077 | 274 | 2 58 |
| Bank premises furniture and fixtures, and other assets representing bank premises | 18,298 | 17,061 | 20,334 | 18,927 | 2,036 | 11 13 |
| Real estate owned other than bank premises | 1,635 | 1,540 | 2,693 | 2,611 | 1,058 | 64 71 |
| All other assets | 71,755 | 70,836 | 72,083 | 88,154 | 298 | 42 |
| *Total assets* | 1,199,256 | 960,367 | 1,293,774 | 1,074,079 | 94,518 | 7 88 |
| **Liabilities** | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 151,833 | 151,833 | 159,947 | 159,947 | 8,114 | 5 34 |
| Time and savings deposits of individuals, partnerships and corporations | 454,783 | 454,783 | 530,649 | 530,649 | 75,866 | 16 68 |
| Deposits of U S government | 1,937 | 1,937 | 2,033 | 2,033 | 96 | 4 96 |
| Deposits of states and political subdivisions | 43,220 | 43,220 | 44,008 | 44 008 | 788 | 1 82 |
| All other deposits | 39,282 | 39,282 | 41,979 | 41,979 | 2,697 | 6 87 |
| Certified and officers' checks | 6,400 | 6,400 | 7,791 | 7,791 | 1,391 | 21 73 |
| Total deposits in domestic offices | 697,453 | 697,453 | 786,408 | 786,408 | 88,955 | 12.75 |
| Demand deposits | 189,925 | 189,925 | 199,674 | 199,674 | 9,749 | 5 13 |
| Time and savings deposits | 507,528 | 507,528 | 586,733 | 586,733 | 79,205 | 15 61 |
| Total deposits in foreign offices | 217,868 | 0 | 206,529 | 0 | −11,339 | −5 20 |
| Total deposits | 915,321 | 697,453 | 992,937 | 786,408 | 77,616 | 8 48 |
| Federal funds purchased and securities sold under agreements to repurchase | 113,216 | 112,903 | 118,184 | 117,838 | 4,968 | 4 39 |
| Interest-bearing demand notes issued to U.S Treasury | 6,782 | 6,782 | 8,321 | 8,321 | 1,539 | 22 69 |
| Other liabilities for borrowed money | 21,626 | 10,307 | 26,262 | 14,144 | 4,636 | 21 44 |
| Mortgage indebtedness and liability for capitalized leases | 1,636 | 1,619 | 1,735 | 1,724 | 99 | 6 05 |
| All other liabilities | 69,721 | 60,595 | 68,981 | 68,534 | −740 | −1 06 |
| *Total liabilities* | 1,128,302 | 889,661 | 1,216,420 | 996,968 | 88,118 | 7 81 |
| Subordinated notes and debentures | 3,506 | 3,259 | 3,875 | 3,632 | 369 | 10 52 |
| **Equity Capital** | | | | | | |
| Preferred stock | 101 | 101 | 136 | 136 | 35 | 34 65 |
| Common stock | 13,075 | 13,075 | 13,721 | 13,721 | 646 | 4 94 |
| Surplus | 20,355 | 20,355 | 21,663 | 21,663 | 1,308 | 6 43 |
| Undivided profits and reserve for contingencies and other capital reserves | 33,916 | 33,916 | 37,958 | 37,958 | 4,042 | 11 92 |
| *Total equity capital* | 67,447 | 67,447 | 73,479 | 73,479 | 6,032 | 8 94 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 1,199,256 | 960,367 | 1,293,774 | 1,074,079 | 94,518 | 7 88 |

* Excludes one noninsured national trust bank with total assets of $2 million.

losses that also occurred during the same period. However, both first quarter net losses and provisions declined 31 percent from the fourth quarter of 1982.

Net loan loss coverage deteriorated sharply for large national banks. In the first quarter of 1982, pretax earnings plus loan loss provisions equalled 6.2 times net loan losses; for the first quarter of 1983, losses were only covered 3.7 times.

Between the first quarters of 1982 and 1983, salaries and other overhead expenses besides those for occupancy increased 12 percent; occupancy expenses rose 17 percent. Total overhead expenses rose $846 million, or almost 13 percent, to $7.4 billion for large national banks. In comparison, the rate of inflation was only 3.6 percent. Thus, overhead expense grew well in excess of the rate of inflation during this 12-month period.

That 13 percent rate of growth is a source of concern. Total overhead expense, while declining from the fourth quarter of 1982, rose $846 million between the first quarters of 1982 and 1983 compared to a $903 million increase in net interest income.

## Assets

Consolidated foreign and domestic assets of all 4,654 national banks at the end of the first quarter of 1983 were $1.3 trillion, 7.9 percent higher than the first quarter of 1982. Reported domestic assets increased 11.8 percent to $1 trillion, while loans booked in foreign offices declined 8 percent to $220 billion.

First quarter consolidated foreign and domestic assets declined 1 percent (annual rate), domestic assets increased 1.5 percent and foreign assets declined 3.5 percent. Bank assets and their composition continue to reflect major trends in both the domestic and worldwide economies. A decline in world trade and continuing concern about the ability of foreign borrowers to repay loans has caused the slowdown in international lending that started in 1982 to continue. The effects of the recession that weakened domestic business demand for credit also continued. Through the first quarter of 1983, corporations continued to pay off short-term bank credit because improved capital and equity markets provided attractive alternative sources of funds.

The gradually improving but still weak economy was reflected in the growing number of national banks that demonstrated financial, operating, or compliance weaknesses and, therefore, warranted a higher than normal degree of supervisory concern through the first quarter of 1983. The Office of the Comptroller of the Currency, in examinations conducted prior to that date, identified 88 such institutions, up from 70 at yearend 1982. Those 88 banks represented 1.9 percent of all national banks and 1.25 percent of the total consolidated foreign and domestic assets of all national banks.

Consolidated foreign and domestic gross loans, excluding unearned income, for all national banks grew 8 percent between the first quarters of 1982 and 1983. From yearend 1982, however, loan growth was fractional, and after reserves for possible loan losses are subtracted, actually declined. On a domestic-only basis, net loan growth was almost 10 percent for the 12 months ending March 31, 1983, but was negligible from yearend 1982.

Loan quality, as measured by the portion of loans past due, deteriorated slightly for all national banks between yearend 1982 when it stood at 4.4 percent and the end of the first quarter 1983 when it reached 4.6 percent. Sharper increases in past due loans were experienced by banks with more than $5 billion in assets than for any other size group. These increased from 5.4 percent to 6.2 percent of total loans. Comparisons of past due loans with previous periods are not valid because of a definitional change in past due reporting.

The increase in provisions for loan losses exceeded the increase in net charge offs, increasing reserves for possible loan losses by 19 percent from the amount the year before. Reserves increased 4 percent from yearend 1982. The ratio of such allowances to total loans increased to 1.15 percent at the end of the first quarter of 1983, up from 1.11 percent at yearend 1982 and 1.04 percent at the end of the first quarter of 1982.

Lackluster lending opportunities both domestically and internationally, led banks to continue investing in securities. At the end of the first quarter total securities held by national banks stood at $206 billion, up 13 percent from their year earlier level, and 3.7 percent from yearend 1982.

At the end of the first quarter of 1983, national banks held $105 billion in U.S. Treasury and agency securities—26 percent more than in March 1982 and nearly $10 billion, or 10 percent, more than at yearend 1982. State and local government securities at the end of the first quarter had declined 1 percent from the amount the year before and over 2 percent from yearend 1982. The maturity of the portfolio increased slightly with almost 70 percent of the securities having maturities of 5 years or less.

## Liabilities

As stated above, the success of the MMDA and Super NOW accounts had the most significant effect upon national bank balance sheets during the first quarter of 1983. First quarter inflows to MMDA accounts and Super NOW Accounts in national banks totalled $111 5 billion and $11 4 billion, respectively.

The bulk of these funds came from other deposit accounts. As a result of these intrabank flows, the net change in total time and savings deposits for all national banks was considerably less than the total inflows into MMDA and Super NOW accounts. While these new deposit accounts in all national banks totalled almost $123 billion by the end of the first quarter, the increase in total time and savings accounts during the quarter was only $18 billion.

Reflecting the reduction in international lending activity and world trade among other things, deposits in foreign offices declined 5 percent from the first quarter of 1982 and 2.7 percent from yearend 1982.

## Capital

Aggregate equity capital increased by 8.9 percent between the first quarters of 1982 and 1983, resulting in a slight increase in the capital-to-assets ratio. The average unweighted primary capital ratio of large national banks, however, declined to 7.09 percent from 7.35 over the same period. The capital ratio at banks with less than $300 million in assets increased to 10.61 percent from 10.02 percent.

## Summary

Liquidity and balance sheet changes dominated the events of the first quarter of 1983. Flows into newly created deposit accounts, weak loan demand, large increases in securities, and declines in large-denomination liabilities increased national bank liquidity. Indeed, some observers suggested that this quarter marked the largest postwar improvement in liquidity for the banking system as a whole.

Because of large provisions for loan losses, increases in net income and profitability remained only marginal. Continuing large net charge-offs, increases in past due loans and an increased number of banks requiring special supervisory attention reflected the banking system's customary lagging reaction to the now-ended recession.

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Walter D. Rogers
Senior Financial Analyst
Economic and Policy Analysis Division

*Consolidated assets and liabilities of large* national banks, March 31, 1983*
(Dollar amounts in millions)

| | 339 banks | |
|---|---|---|
| | *Foreign† and domestic offices* | *Domestic offices* |
| Cash and due from depository institutions | $ 179,526 | $ 92,645 |
| U S Treasury securities | 41,536 | 41,362 |
| Obligations of other U.S government agencies and corporations | 18,100 | 18,077 |
| Obligations of states and political subdivisions in the United States | 53,406 | 52,804 |
| Other bonds, notes and debentures | 6,914 | 2,050 |
| Federal Reserve stock and corporate stock | 1,223 | 1,104 |
| Trading account securities | 10,058 | 8,998 |
| Federal funds sold and securities purchased under agreements to resell | 37,821 | 37,587 |
| Loans, total (excluding unearned income) | 602,920 | 464,114 |
| Allowance for possible loan losses | 6,936 | 6,674 |
| Loans, net | 595,984 | 457,440 |
| Lease financing receivables | 10,510 | 8,703 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 15,209 | 13,802 |
| Real estate owned other than bank premises | 2,012 | 1,929 |
| Investments in unconsolidated subsidiaries and associated companies | 1,518 | 510 |
| Customers' liability on acceptances outstanding | 40,728 | 30,253 |
| Other assets | 24,681 | 52,264 |
| *Total assets* | 1,039,224 | 819,529 |
| Demand deposits of individuals, partnerships and corporations | 121,766 | 121,766 |
| Time and savings deposits of individuals, partnerships and corporations | 367,717 | 367,717 |
| Deposits of U S government | 1,604 | 1,604 |
| Deposits of states and political subdivisions in the United States | 27,827 | 27,827 |
| Deposits of foreign governments and official institutions | 3,467 | 3,467 |
| Deposits of commercial banks | 36,543 | 36,543 |
| Certified and officers' checks | 6,018 | 6,018 |
| Total deposits in domestic offices | 564,941 | 564,941 |
| Total demand deposits | 155,484 | 155,484 |
| Total time and savings deposits | 409,457 | 409,457 |
| Total deposits in foreign offices† | 206,529 | NA |
| *Total deposits* | 771,470 | 564,941 |
| Federal funds purchased and securities sold under agreements to repurchase | 110 689 | 110,342 |
| Interest-bearing demand notes issued to the U S Treasury | 7,790 | 7,790 |
| Other liabilities for borrowed money | 25,700 | 13,582 |
| Mortgage indebtedness and liabilities for capitalized leases | 1,449 | 1,438 |
| Banks' liability on acceptances executed and outstanding | 43,079 | 33,988 |
| Other liabilities | 22,688 | 31,333 |
| *Total liabilities* | 982,866 | 763 414 |
| Subordinated notes and debentures | 3,413 | 3 169 |
| Preferred stock | 103 | 103 |
| Common stock | 9,875 | 9 875 |
| Surplus | 15,814 | 15,814 |
| Undivided profits | 26,804 | 26,804 |
| Reserve for contingencies and other capital reserves | 349 | 349 |
| *Total equity capital* | 52,945 | 52 945 |
| *Total liabilities and equity capital* | $1,039,224 | $819,529 |

* Large national banks include all those with assets over $300 million as of either June 30, 1982 or 1981 and all national banks with foreign offices

† For reporting purposes foreign offices include Edge and Agreement subsidiaries located in Puerto Rico U S Virgin Islands and U S Trust Territories

*Year-to-date income and expenses of large* national banks, March 31, 1983*
(Dollar amounts in millions)

| | *339 banks* | |
|---|---|---|
| | *Consolidated foreign and domestic* | *Percent distribution* |
| Operating income | | |
| Interest and fees on loans | $18,308 1 | 65 9 |
| Interest on balances with depository institutions | 2,584 2 | 9 3 |
| Income on federal funds sold and securities purchased under agreements to resell | 895 8 | 3 2 |
| Interest on U S Treasury securities and on obligations of other U S government agencies and corporations | 1,556 3 | 5 6 |
| Interest on obligations of states and political subdivisions in the United States | 926 8 | 3 3 |
| Income from all other securities (including dividends on stock) | 231 0 | 8 |
| Income from lease financing | 335 5 | 1 2 |
| Income from fiduciary activities | 505 4 | 1.8 |
| Service charges on deposit accounts | 502 9 | 1.8 |
| Other service charges, commissions and fees | 1,009 4 | 3.6 |
| Other operating income | 914 6 | 3 3 |
| *Total operating income* | 27,770 1 | 100 0 |
| Operating expenses | | |
| Salaries and employee benefits | 3,860 0 | 15 1 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 2,980 9 | 11 7 |
| Interest on deposits in foreign offices | 4,982 5 | 19 5 |
| Interest on other deposits | 5,570 8 | 21 8 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 2,443 6 | 9 6 |
| Interest on demand notes issued to the U S Treasury and on other borrowed money | 1,024 9 | 4 0 |
| Interest on subordinated notes and debentures | 83 1 | 3 |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 1,251.3 | 4 9 |
| Provision for possible loan losses | 1,112 7 | 4 3 |
| Other operating expenses | 2,271 7 | 8 9 |
| *Total operating expenses* | 25,581 4 | 100 0 |
| Income before income taxes and securities gains or losses | 2,188 7 | |
| Applicable income taxes | 613 7 | |
| Income before securities gains or losses | 1,575 0 | |
| Securities gains (losses), gross | 6 6 | |
| Applicable income taxes | 4 7 | |
| Securities gains (losses), net | 1 8 | |
| Income before extraordinary items | 1,576 9 | |
| Extraordinary items, net | 2.5 | |
| Net income | 1,579 4 | |
| Cash dividends declared on common stock | 708 9 | |
| Cash dividends declared on preferred stock | 2 3 | |
| Total cash dividends declared | 711.2 | |
| Recoveries credited to allowance for possible loan losses | 206 4 | |
| Losses charged to allowance for possible loan losses | 1,102 1 | |
| Net loan losses | 895 7 | |
| Ratio to total operating income | | |
| Interest on deposits | 48 7 | |
| Other interest expense | 12 8 | |
| Salaries and employee benefits | 13 9 | |
| Other noninterest expense | 16 7 | |
| Total operating expenses | 92 1 | |
| Ratio of net income (annualized) to | | |
| Total assets (end of period) | 0 61 | |
| Total equity capital (end of period) | 11 93 | |

*Large national banks include all those with assets over $300 million as of either June 30, 1982 or 1981 and all national banks with foreign offices.

# 1983 Survey of Consumer Finances

The Office of the Comptroller of the Currency, along with the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Department of Health and Human Services, Federal Trade Commission, the Department of the Treasury, and the Department of Labor is sponsoring the 1983 Survey of Consumer Finances. This survey is designed to update the Federal Reserve's *1977 Consumer Credit Survey*, which is the most recent comprehensive study of household financial behavior. Within the past few years, the financial services industry has undergone major structural changes as a result of financial innovation and regulatory reform. We believe the Survey will provide indispensable information on how the changes in the financial marketplace are affecting individuals and families and, ultimately, how effective current regulations are.

The 1983 Survey of Consumer Finances is a shared-time survey intended to serve the distinct and shared research interests of the sponsors. The common interest involves estimating the debt and asset holdings of a nationally representative sample of American families. The survey's balance sheet approach is expected to assess the net financial situation of American families and provide information on the use of financial institutions and the various types of asset and debt instruments available. In addition, specific information on consumer reactions to new financial instruments and existing credit regulations has been gathered, as well as detailed information on pension benefits.

The Survey Research Center (SRC) of the University of Michigan was retained to conduct personal interviews with members of 5,000 households using questionnaire material developed jointly by the project sponsors. Four thousand of the respondents were randomly selected to represent a nationwide sample. Because high-income households are particularly important users of financial services, 1,000 interviews were held with them. The general sample, combined with the high-income supplement, will then be used to draw statistically valid estimates of U.S. household financial behavior.

After completing the interviews, SRC will compile and edit the survey information and provide the sponsors with a fully documented computer tape containing the raw data. The individual sponsoring agencies will then analyze the data.

The Survey of Consumer Finances captures the general financial circumstances of American families at a particular point in time, with financial flows being measured for the year preceding the survey date. Detailed estimates of the amounts of money involved and the composition of the associated family units are also recorded. Demographic characteristics include not only age of family members and family composition, but also work experience, education, and other characteristics associated with financial behavior. Balance sheet inventory questions in the survey are designed to produce a comprehensive inventory of consumers' assets and liabilities. Comprehensive household balance sheet data are required to analyze a variety of monetary policy, financial structure, and consumer protection questions. For example:

- Data on NOW accounts, money market funds, and other liquid asset holdings, together with information on how consumers use these asset accounts will provide evidence on how recent financial innovations have affected the demand for money in the household sector. This information should be valuable in the conduct of monetary policy.
- Consumers' asset inventory will also be used in conjunction with information on attitudes toward investments and savings to assess the impact of the Depository Institutions Deregulation and Monetary Control Act of 1980 on the earnings and stability of depository institutions. This information should provide insights for developing policy on future deregulation of financial institutions.
- Debt inventory questions will be used to evaluate the impact of general economic conditions and consumer protection regulations on households. Cross-section data on consumer debt, debt-to-liquid asset ratios, and debt-to-income ratios will be useful in explaining changes in aggregate debt burden measures and in evaluating the effect of indebtedness on consumer expenditures. In addition, these questions will provide information on consumers' reliance on market-sensitive instruments such as variable rate mortgages, short-term mortgages variable-rate consumer loans, and credit lines secured by home equity to finance expenditures.

The balance sheet inventory, together with information on financial decisions, income, and education will indicate the financial sophistication and soundness of consumers who use market sensitive instruments

This information will help evaluate the impact of economic conditions on consumer expenditures, assess the need for regulations, and design effective regulations if they are needed.

The balance sheet inventory is also necessary to evaluate some aspects of the impact of consumer protection regulations in the financial area. For example, the amount of mortgage and consumer debt outstanding may reflect the incidence of discrimination in consumer credit and mortgage markets. Consumer debt outstanding, liquid asset holdings, and net worth will be used to analyze credit shopping and financing decisions. This, in turn, can be used to assess regulations implemented under the Equal Credit Opportunity and Truth in Lending Acts.

The inventory of financial services used and responses to questions on factors influencing consumers' selection of financial institutions will provide evidence on the extent to which consumers view services from thrift institutions as alternatives to services from commercial banks. This information will be useful to the banking supervisory agencies in assessing the competitive impact on households of mergers and acquisitions in banking markets and in developing positions on future legislation relating to powers to be granted financial institutions.

Finally, a major focus of the survey will be directed toward gathering information about respondents' entitlements to pension and social security benefits, which are an important but often neglected aspect of net worth. For this purpose, information will be collected about the respondent's job, participation in pension plans, coverage by social security, and retirement plans.

After training the interviewers and pretesting the survey questionnaire, SRC began interviewing on February 15. The interviewing process formally closed on July 31. A summary data tape will be available to the sponsors in September.

In a subsequent issue of the *Quarterly Journal*, we will report the results of the survey analysis.

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Melanie R. Quinn
Financial Analyst
Economic and Policy Analysis Division

# Regional Reorganization Update

The management teams for the districts and field offices are now in place with the exception of the Los Angeles Field Office Director. Two senior executives, a Deputy Comptroller and a District Administrator, head each district. In addition, each district has a Director for Bank Supervision, a Director for Administration, a Director for Analysis, a District Counsel and Field Office Directors.

## Northeastern District

Deputy Comptroller: Thomas W. Taylor
District Administrator: Ralph W. Gridley
Director for Bank Supervision: Jerry H. Corn
Director for Analysis: Michael B. Barton
Director for Administration: Michael J. Powers
District Counsel: Wallace S. Nathan
Field Office Director, Boston: Royal B. Dunham, Jr.
Field Office Director, New York City: Vacant
Field Office Director, Philadelphia: Peter P. Snyder

## Southeastern District

Deputy Comptroller: Robert J. Herrmann
District Administrator: Robert R. Klinzing
Director for Bank Supervision: Patrick M. Frawley
Director for Analysis: Vernon E. Fasbender
Director for Administration: James P. Buff
District Counsel: H. Gary Pannell
Field Office Director, Atlanta: William J. Abernathy
Field Office Director, Memphis: William J. Suman
Field Office Director, Richmond: Barbara C. Healey

## Central District

Deputy Comptroller: Karen J. Wilson
District Administrator: Vacant
Director for Bank Supervision: Nicholas J. Horner
Director for Analysis: Paul E. James
Director for Administration: Billy L. Dowdle
District Counsel: James M. Kane
Field Office Director, Cleveland: David G. Hoffman
Field Office Director, Chicago: John R. Powers
Field Office Director, Cincinnati: Ashley Lee
Field Office Director, Springfield: Gene W. Ferner

## Midwestern District

Deputy Comptroller: Dean S. Marriott
District Administrator: Peter Kraft
Director for Bank Supervision: A. Duncan McFarlane
Director for Analysis: John W. Rogers
Director for Administration: William B. Watkins
District Counsel: Michael J. O'Keefe
Field Office Director, Kansas City: Gary M. Brickman
Field Office Director, Minneapolis: James J. Gartner
Field Office Director, Omaha: Kent C. Austinson

## Southwestern District

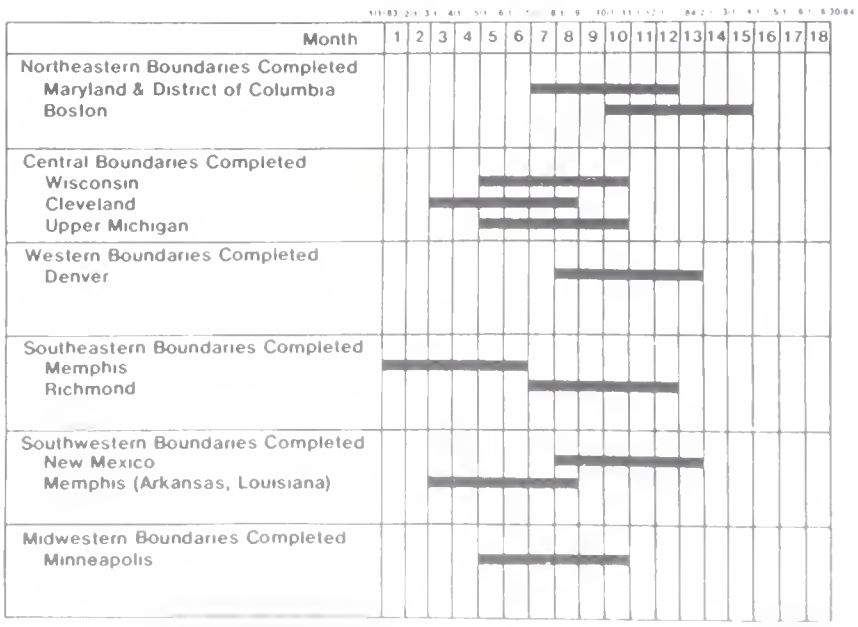
Deputy Comptroller: Clifton A. Poole, Jr.
District Administrator: John A. Bodnar
Director for Bank Supervision: Charles F. Stuart, Jr.
Director for Analysis: Preston S. Morrow
Director for Administration: Stephen R. Steinbrink
District Counsel: R. Patrick Parise
Field Office Director, Dallas: Edward M. Graves
Field Office Director, Houston: James R. Jones
Field Office Director, Midland: Dale R. Stringer
Field Office Director, Oklahoma City: Wayne R. Booth

## Western District

Deputy Comptroller: Billy C. Wood
District Administrator: Rufus O. Burns, Jr.
Director for Bank Supervision: Joe Vaez
Director for Analysis: Timothy M. Sullivan
Director for Administration: Stephen J. Schendel
District Counsel: Joseph Pogar, Jr.
Field Office Director, Denver: Frank J. Coughlin
Field Office Director, Seattle: Donald W. Kerbel
Field Office Director, San Francisco: Daniel L. Pearson
Field Office Director, Salt Lake City: James W. Timmel
Field Office Director, Los Angeles: Vacant

The District Management Group has concluded that it is in the best interests of the agency and the personnel involved to accelerate the implementation schedule. The reorganization of the Richmond Office, which was scheduled to begin December 1, 1983, began July 1. It will be completed March 31, 1984, 3 months ahead of the original 18-month schedule.

**IMPLEMENTATION SCHEDULE**



# Speeches and Congressional Testimony


| *Subject* | *Date and Speaker* | *Page* |
|---|---|---|
| International Banking | April 21, 1983, C. T. Conover, Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs | 17 |
| Deregulation | April 27, 1983, C. T. Conover, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs | 25 |
| Domestic Lending | May 10, 1983, C. T. Conover, Comptroller of the Currency, before the Reserve City Bankers Association | 30 |
| Offshore Shell Banks | May 24, 1983, Robert B. Serino, Director, Enforcement and Compliance Division, before the Permanent Subcommittee on Investigations of the Senate Committee on Governmental Affairs | 33 |
| Banking Law Violations | June 28, 1983, Robert B. Serino, Director, Enforcement and Compliance Division, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations | 37 |
| Changes in U.S. Banking | July 6, 1983, C. T. Conover, Comptroller of the Currency, before the Spanish Association of Private Banks | 41 |

# Statement of C. T. Conover, Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, Washington, D.C., April 21, 1983

Mr. Chairman and members of the Subcommittee, I am pleased to offer my views on the international financial situation and, in particular, the supervision of international banking My statement is divided into two parts. The first part describes commercial bank lending to the developing countries. The second part discusses current and proposed financial, supervisory and banking responses to the developing countries' debt problems.

## Bank Lending to Developing Countries

U.S. commercial banks have been active in international finance since the early 1960s. Today, they are both major lenders and deposit takers in overseas markets. As of June 1982, U.S. bank loans, interbank deposits and acceptances to both foreign and domestic borrowers totaled $1.3 trillion. Roughly one-quarter of that amount, $344 billion, consisted of credit to foreign borrowers denominated in non-local currencies.

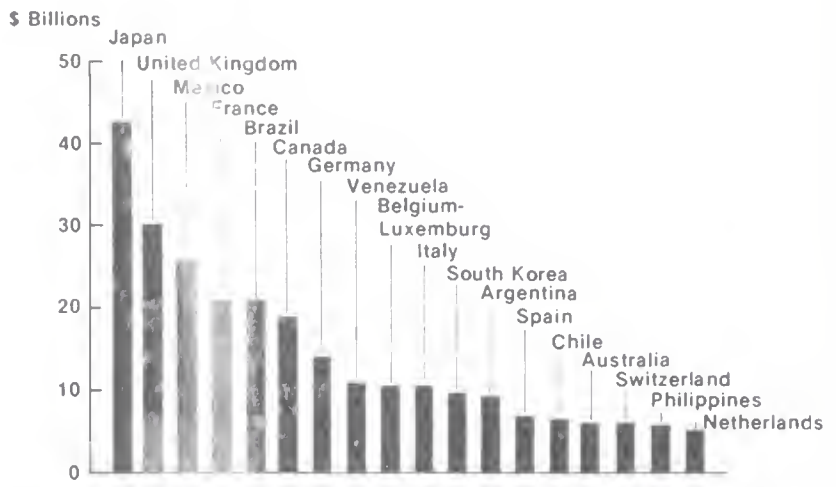
U.S. banks are active lenders in both the industrialized and developing countries. Fifty-seven percent of U.S. banks' loans overseas are to the industrialized countries. Loans to the non-oil producing less developed countries (NLDCs) account for 30 percent; 7 percent are to oil producing LDCs that generally have low financing needs. Most of the remainder are credits to offshore banking centers (4 percent) and Eastern Europe (2 percent); Yugoslavia accounts for a major portion of loans to East European countries

Overall U.S. bank international exposure is diversified. U.S. bank exposures exceed $5 billion in each of 18 countries, all of which are important trading partners of the U.S. The relative loan exposure to most of these countries roughly parallels their relative importance as U.S. trading partners.

Significant commercial bank lending to the NLDCs began with the first OPEC price increase in 1973 and grew rapidly thereafter. As of June 30, 1982, the NLDCs had external debt of about $580 billion. Approximately one-half of this amount was owed to foreign commercial banks, of which $100 billion was owed to U.S. banks.

Six NLDCs—Mexico, Brazil, South Korea, Argentina, Chile, and the Philippines—have experienced rapid growth and have represented growing markets for U.S. exports. Exposure to the six NLDCs as of June of

**U.S. BANK EXPOSURE TO INDIVIDUAL COUNTRIES***

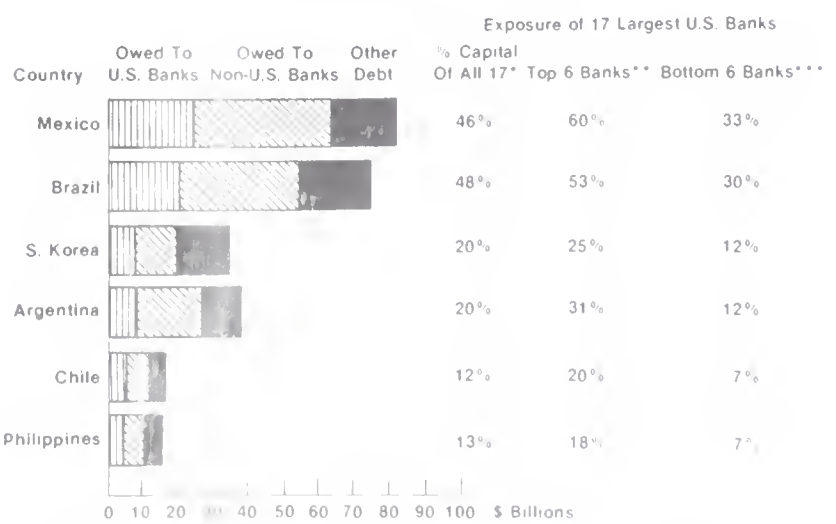



*Mid 1982 After Adjustments For Guarantees And Indirect Borrowings, But Excluding Commitments.
Source: FFIEC "Country Exposure Lending Survey"

1982 amounted to $75 billion—only 20 percent of U.S. bank international loans, or about 6 percent of total loans.

In each of these countries, U.S. bank loans account for no more than one-third of total external debt. Even in the case of Mexico, our close neighbor and third largest trading partner, non-U.S. commercial banks have loaned 1½ times the amount loaned by U.S. banks. Moreover, the U.S. share of lending in Mexico and other Latin American countries has generally declined through the 1970s as non-U.S. banks have moved into this growing market.

**BANK EXPOSURE TO THESE DEVELOPING COUNTRIES IS LARGE**




*Combined June 1982 Exposure of All Seventeen Banks as a Percentage of Their Combined Capital The Seventeen Banks Being Considered All Had Total Assets in Excess of $15 Billion on That Date
**Average Exposure of the Six Banks with the Highest Percentage Exposure
***Average Exposure of the Six Banks with the Lowest Percentage Exposure
Sources FFIEC Department of Treasury

To understand the various reasons for the rapid increase in bank lending to the NLDCs, it is helpful to divide the last decade into two periods. The first period extends from the 1973–74 OPEC price increase up to the second OPEC price increase in 1979–80. The second period begins with the 1979–80 OPEC price increase and continues through today.

### Reasons for Increased Bank Lending to NLDCs (1973–78)

Lending to the NLDCs by commercial banks in the industrialized countries grew rapidly for four reasons. First, the external financing needs of the non-oil producing countries increased significantly during this period. Three factors contributed to these increased needs:

- Rapid economic growth: The economies of the NLDCs were growing rapidly, and domestic savings, while high as a percentage of GNP, were insufficient to finance the capital investment required by their development plans.
- Rapid increase in the price of oil: The fourfold OPEC oil price rise of 1973–74, which increased the OPEC current account surplus from $7 billion in 1973 to $68 billion in 1974, resulted in a corresponding deterioration in the current account positions of all oil importing nations. Higher oil prices, in combination with the worldwide recession they fostered, combined to quadruple the NLDC current account deficit over 2 years, from $11 billion in 1973 to $46 billion in 1975.
- Policy decisions to finance both economic growth and oil price increase: To avoid the economic dislocations that could result from a rapid adjustment to the oil shock, many oil importing countries, both industrialized and developing, decided to stretch out the adjustment process by financing the higher cost of oil. Low or negative real interest rates made this option particularly attractive. In the NLDCs, the need to finance the oil price increases was superimposed on an on-going need to finance economic development. Much of this additional financing came from foreign sources, including banks.

The second reason for increased commercial bank lending was that the growth rate of financing needs in the more advanced NLDCs outpaced the growth of bilateral and multilateral assistance. Official lending agencies also shifted their concessionary financing toward the poorer LDCs. The larger and more creditworthy NLDCs thus relied more on private sources for their external financing. As a result, the share of these NLDCs' debt held by private lenders has increased over the last decade.

Third, Western governments had economic reasons to encourage commercial bank lending to the developing world. The heaviest borrowers generally represented large and growing markets for OECD exports. The real rate of economic growth of the NLDCs since 1973 has consistently exceeded that of the United States and the OECD as a whole. Increasing the level of external financing enabled NLDCs to continue to pursue economic development while, at the same time, providing growing export markets and jobs for industrialized countries. U.S. exports to the six major NLDCs rose from $7 billion in 1973 to almost $22 billion in 1979.

Fourth, NLDCs represented new, growing, and profitable markets for commercial banks. Moreover, the need to recycle OPEC surpluses required the banks to provide an essential intermediation service between the OPEC countries with large volumes of funds to invest and the NLDCs with current account deficits. Bank lending was concentrated in those NLDCs believed to have high potential as markets for banking services and exports from industrialized countries.

Lending to these nations appeared profitable. Fees exceeded one percentage point, and many loans were priced at up to 200 basis points above the London Interbank Offered Rate (LIBOR). These fees and spreads seemed especially attractive since postwar international lending had led to few repayment problems.

The initial profitability of the NLDC markets attracted new lenders and resulted in two gradual changes. First, many smaller banks that were less experienced in international lending became participants, and second, competition contributed to a reduction in fees and spreads. By the end of the 1970s, many loans were being made at 75 basis points or less above LIBOR.

By 1978, it appeared that the challenge of the first oil shock had been met. Oil prices had stabilized, and the OPEC current account surplus was approaching zero. Economic growth in the West was entering its third year. With the help of international borrowing, many parts of the developing world were experiencing economic growth above the levels of a decade earlier.

Nonetheless, the NLDCs were particularly vulnerable to future economic shocks. Their capacity for taking on additional debt was limited by previous heavy borrowings that would begin to mature in 1980–82 and would have to be rolled over. In addition, real interest rates had remained historically low throughout the mid-1970s; any increase would raise the cost of servicing existing and future debt.

## Lending to NLDCs After 1979–80 Oil Price Increase

In 1979, oil prices again began to increase sharply. By the end of 1980, OPEC oil prices exceeded $34 per barrel, a 160 percent increase over 1978 prices. Once again the world faced a fundamental decision—whether to inflate or to adjust. This time most industrial countries decided to make major adjustments in their monetary and fiscal policies.

As a result, the NLDCs faced a less favorable economic environment after the second oil price increase than after the first oil shock, and some did not begin their adjustment soon enough. Economic growth slowed in the industrial countries, thereby reducing demand and lowering prices for NLDC exports. The NLDC trade deficit, already hurt by higher oil prices, therefore began to increase. The need to finance this widening trade deficit contributed to an increasingly rapid growth in NLDC debt; by the end of 1980, NLDC debt had reached $465 billion, nearly four times the amount outstanding at the end of 1974.

A large proportion of this debt had been made on nonconcessionary, floating rate terms. As both nominal and real interest rates rose sharply and medium-term debt from 1973–74 began to mature, debt service payments rose rapidly. Principal and interest payments increased from $77 billion in 1980 to $108 billion in 1982.

The result was a rapid increase in the NLDCs' average debt service ratio during 1981. Debt service ratios for four of the six NLDCs that were major borrowers from U.S. banks increased even more rapidly than the average. Moreover, in addition to these rapidly increased debt service costs, NLDCs also had to finance current needs, at a time when export earnings were stagnating.

Despite the deterioration in the financial condition of the NLDCs, commercial banks continued to increase their exposure to these countries in the expectation that the worldwide economic slump would be short-lived. Lending to the six major NLDCs increased almost 30 percent per year in 1980 and 1981 and rose an additional 10 percent during the first 6 months of 1982.

Conditions in each of the three largest borrowing NLDCs seemed to indicate that additional loans could be safely extended. In 1980, Brazil began to undertake its own severe monetary and fiscal adjustment program and sharply reduced its trade deficit. Argentina was able to maintain a strong balance of trade surplus until the Falkland Islands War. Mexico's debt service capacity seemed to be rapidly growing as its proven oil reserves swelled at the very time that real oil prices were rapidly increasing.

Nonetheless, bankers exhibited more caution during this period. Loan pricing became more cautious as spreads once again increased. Banks also began to sharply reduce the maturity of new loans—in many cases to only 1 or 2 years. What appeared to be a cautious move by each bank, however, actually increased the instability of international markets in 1982 as many of these loans came due.

In 1982, a number of events combined to cause a major shift in market expectations about the creditworthiness of NLDCs. The general forecast of a relatively short recession in the West gave way to uncertainty about when recovery would occur. Expectations of rising oil prices gave way to growing perceptions of an oil glut. Deflation seemed suddenly more likely than continued inflation. Confidence in international lending was shaken by a number of shocks to the international credit and interbank markets, such as Poland, Penn Square, Drysdale, Banco Ambrosiano, and the Falklands War.

In the midst of this growing uncertainty, NLDCs were faced with the need to refinance a huge amount of debt—both medium-term loans from the mid-1970s and short-term credits extended in 1980–81—and to obtain new financing. In this uncertain environment, however, commercial banks became increasingly cautious about continued lending without some program to deal with the underlying NLDC economic problems.

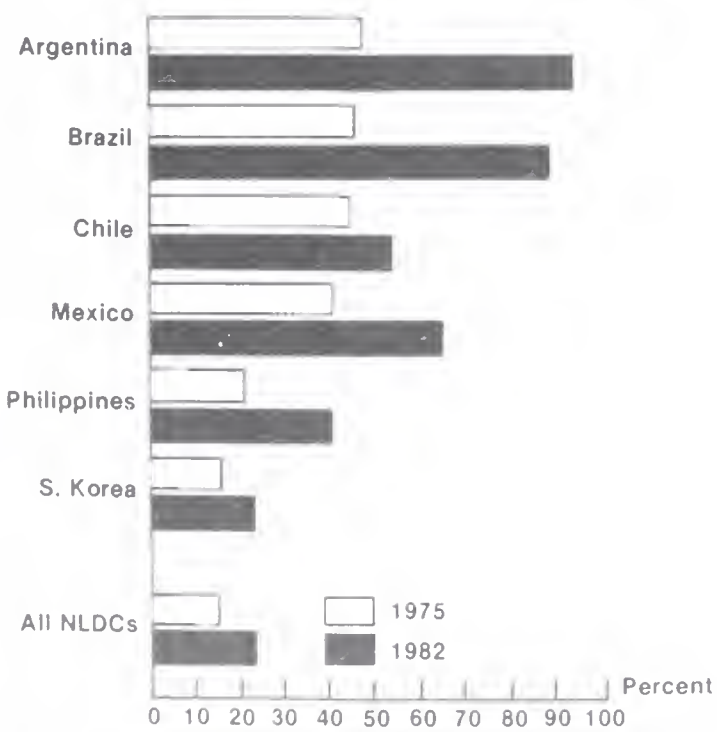
This change both in perceptions and in reality became a crisis in August of 1982 when Mexico announced that it could not meet debt service payments due that month. Argentina, with its exports curtailed and its finances disrupted by the Falklands War, reached the same situation shortly thereafter. Despite its considerable progress since 1980 toward fundamental adjustment, Brazil found itself caught up in the general uncertainty about lending to Latin America. It began experiencing difficulties in raising additional financing and, by December of 1982, began negotiations with the International Monetary Fund (IMF) and its commercial lenders. Within 4 months, the three largest NLDC borrowers from U.S. banks were forced to seek rescheduling and assistance.

The basic problem we now face is that a number of debtor countries have not been able to adjust quickly enough to rapidly changing economic conditions, and are having difficulties in making payments on their external loans and arranging financing from private capital markets.

An attendant problem is that a number of our major banks have large exposures to the countries that have become higher risks. More specifically, a number of U.S. banks have exposures exceeding 50 percent of capital to Mexico, Brazil and/or Argentina. Losses resulting from the highly unlikely event of a total default by one of these countries would severely reduce the capitalization of those banks. At a minimum, such a loss of capital would force those banks to greatly contract their lending activities—domestic and foreign.

The loss of confidence that would result from a default would magnify these consequences. Unlike smaller banks, all large U.S. banks are heavily dependent for funds on the money markets; they do not have large core deposit bases. As a group, these banks depend on volatile liabilities (less than 1 year in maturity) for approximately 65 percent of their funding. One common source of such funding is large certificates of deposit; some 40 percent of these funds have even shorter maturities of 30 days or less. Thus, large banks are vulnerable to very rapid withdrawals of funds if financial markets lose confidence in them. Such a loss of funding could pose a serious threat to the banks and to both domestic and global credit markets.

**DEBT SERVICE RATIOS***
**FOR SIX LARGE NLDC BORROWERS**




*Debt Service Payments (Amortization of Long-term Debt plus Interest Payments on Short- and Long-term Debt) as a percent of Exports of Goods and Services.

1982 Debt Service Ratios are Estimates.

Source: Federal Reserve Bank of New York, Department of Treasury

## Responses to NLDC Debt Problems

The solutions to these problems are twofold. In the short term we must reduce the risk inherent in the existing exposures, that is, the large debtor countries must be restored to economic health. We cannot immediately reduce the exposure itself, for to do so would merely compound the economic problems faced by those countries. Both official and commercial bank responses, in the form of financial assistance, debt rescheduling, and economic adjustment programs, are needed in order to accomplish this goal.

In the longer term, we must address the banks' and supervisors' mechanisms for dealing with international lending. The following sections discuss both the immediate reduction of risk through financial assistance and economic adjustment, and the avoidance of system-threatening risks through banker and supervisory responses.

### Financial Assistance and Economic Adjustments

In discussing the NLDCs' debt problems, let me underscore three points. First, the current debt crisis is largely the result of the sharp change in world economic conditions and expectations, and a failure of some NLDCs to pursue adequate adjustment to that change. Second, the fundamental problems are problems of liquidity, not solvency. Third, the immediate debt problems can only be solved through collective action by all the affected parties: multilateral institutions, Western governments, commercial banks, and borrower nations.

In this situation, I support the financial assistance currently being provided. This financing:

- Gives borrowers time to adjust their economies to today's harsh financial environment;
- Tides them over until economic recovery in the West improves their export earnings and thus their debt service capacity; and
- Strengthens confidence in the international credit markets after the overreactions in the last half of 1982.

This financing is being provided by multilateral institutions, Western governments and the commercial banks themselves.

Multilateral institutions, such as the Bank for International Settlements (BIS), the World Bank, and particularly the International Monetary Fund, have played essential roles. Although its own resources are limited, the BIS has served as a focal point for the efforts of participating central banks.

The IMF provides foreign exchange upon which member nations may draw. IMF-supported programs are also the basis for debt restructuring arrangements and for new private and official lending to countries with

debt problems. Each dollar of Fund resources can attract several additional dollars in private and official support for a borrower nation. It is therefore very important that the IMF continue to have funds available to commit to adjustment programs for distressed nations. Given the Fund's existing commitments and the likely additional demands upon its resources in the coming year, the proposed major increase in its quotas is essential. I strongly support such an increase.

It is also important that the Fund ensure its capacity to respond quickly to crisis situations, when its regular sources of financing may not be adequate. To this end, the proposed changes in the General Arrangements to Borrow are needed.

Western governments are providing a variety of direct financial assistance. In the United States, for example, we have extended agricultural and export credits as well as other direct financial assistance. Western central banks, including the Federal Reserve, have been important sources of bridge financing. These programs are vital to short-term liquidity needs and must continue.

Commercial banks, which are the largest creditors of the NLDCs, must be part of their debt restructuring programs. As bank supervisors, we are concerned about any significant exposures to distressed nations in an individual bank. However, we also realize that what may be prudent action for a single bank would be unwise for all. A comprehensive reduction of U.S. bank exposures to these nations would precipitate the very credit crisis we seek to avoid.

We therefore recognize that banks, acting in concert with Western governments and the multilateral institutions, may decide to reschedule existing loans and advance additional funds to these borrower nations. In any loan workout situation, it is sometimes necessary to extend new credit to protect the lender's original investment. The rescheduling of current maturities, the restoration of interbank placements with banks in the affected countries, and the provision of nominal new funding are appropriate commercial bank components of a larger debt restructuring program. In some cases, they are essential to restoring a borrower's financial health which in turn strengthens a bank's loan portfolio.

The collective financial assistance efforts now underway restore liquidity and return confidence to international credit markets. These official assistance packages also require borrowers to exercise more discipline in managing their financial affairs. Over the long term, however, lenders and supervisors must take additional steps to address international lending problems.

## Supervisory and Bank Response

Both bank supervisors and bankers themselves need to strengthen their procedures. In order to understand how that can be done, it is necessary to understand how our present supervisory system works.

### Current Supervisory Process

The present system developed as a logical extension of our domestic supervisory policies and evolved as U.S. banks expanded their lending activities overseas. The OCC began examining the overseas units of national banks in 1965 and today sends about 80 examiners to 15 countries every year. In 1972, we opened a London office to deal with the lending and money market activities of U.S. banks. In 1973, we began requiring all national banks to file reports of condition on a global consolidated basis. We began a uniform review of country risk in 1974. In 1977, we implemented what became the present Country Exposure Report, along with more comprehensive examination policies and procedures for supervising international activities. Supervisors in other countries have adopted these procedures for use with their own banks.

Since 1977, the supervision of U.S. banks' international activities has become more uniform. For instance, the Country Exposure Report has been adopted by all three banking agencies under the guidance of the FFIEC. A number of changes have been introduced to the Report of Condition and Report of Income so that all U.S. banks now file uniform reports of their international assets, liabilities, and income to the banking agencies. The banking agencies have all adopted common examination procedures for foreign exchange and international operations. Finally, the FFIEC now sponsors uniform training in international bank supervision.

In 1978, the OCC developed the so-called "means and purpose test" for applying lending limits to sovereign borrowers. In 1979, the three banking agencies established the Interagency Country Exposure Review Committee (ICERC) to evaluate transfer risk and incorporate that evaluation into bank supervision. These last two developments are integral parts of our international bank supervisory process today.

Means and Purpose Test. The means and purpose test was developed in response to continued growth in international lending. By 1978, loans to foreign governments, such as the U.K. and Italy, were nearly 10

percent of some banks' capital. That growth presented two problems. First, the statutory lending limit in 12 USC 84 was silent on loans to governments. Second, many countries had mixed economies in which the government controlled commercial entities. For such countries, it was not clear whether loans to those entities should be aggregated with loans to the government for purposes of the legal lending limit.

The OCC addressed both these problems by issuing an interpretation of 12 USC 84. First, OCC interpreted the law that a government is considered a person for lending limit purposes. Congress recently incorporated this interpretation in the Garn-St Germain Act.

Second, the interpretation set forth a means and purpose test under which a state-owned company could qualify for its own lending limit apart from the government if it used the loan for its own clearly separate purposes and had independent means with which to repay the loan. Finally, as is the case domestically, the legal lending limit is applied separately to each private sector borrower in each country.

The result is that the means and purpose test in 1978 closed a significant "loophole" in the lending limit statute (the law's silence with regard to the treatment of sovereign borrowers). It did not, however, impose an overall limit on exposures to any one country.

Both the legal lending limit and its means and purpose interpretation with regard to sovereign borrowers deal with the aggregation of loans. They do not deal with the evaluation of any particular source of risk to those loans, or the degree to which the bank's overall portfolio may be exposed to those risks. The interpretation reflects the domestic application of the legal lending limit. For example, the lending limit applies to individual agricultural borrowers. There is no limit on a bank's overall concentration in agricultural lending, however, and in many farming communities those concentrations directly and indirectly represent most of the assets in many community banks. Banks with such concentrations may be significantly threatened by the risk of illiquidity in their loans under depressed agricultural economic conditions, even though those loans may be secured by sound collateral.

Similarly, no aggregate limit is placed on country lending even though such lending exposes banks to an additional form of liquidity risk, known as "transfer risk." Transfer risk exists when loans made in one country are denominated in the currency of another country—that is, an entire country may not be able to generate adequate foreign exchange to permit the servicing of individual loans.

Interagency Country Exposure Review Committee. The purpose of the Interagency Country Exposure Review Committee (ICERC) is to assess and ensure uniform classification of transfer risk and to communicate that assessment to banks and examiners. ICERC is comprised of senior examiners from the three banking agencies; it performs two functions:

- Data gathering: ICERC conducts a semiannual country lending survey through the FFIEC to obtain information on U.S. bank exposure to individual countries. When exposures to individual countries change by billions of dollars quarterly, as occurred in 1982, semiannual information forms an inadequate basis for credit decisions by banks and supervisory decisions by regulators.
- Transfer risk evaluation: ICERC evaluates the potential transfer risk in countries where U.S. banks lend. ICERC classifies loans when they become non-performing as the result of transfer risk. ICERC evaluations and classifications are sent to banks and examiners for use in examining individual banks.

ICERC decisions are based on information and data from the banks, the Federal Reserve, and the Treasury about the existing debt structure of a borrowing country. Generally, the data and information used by the banks and ICERC has been adequate for loan classification decisions. However, information on balance of payments and macroeconomic conditions can lag behind events and may not always be complete. Sufficient information about short-term debts, especially for the private sector, is not always available. This deficiency has become a problem during the recent build-up of short-term international loans and the changing expectations about some countries' future flows of foreign exchange.

Bank examiners present ICERC's evaluation of transfer risk in their reports of examination to the bank's directors. The exposure is shown in dollar amounts and as a percentage of the bank's capital. Examiners also highlight large concentrations of transfer risk, even when the loans are still current. In 1981, we began emphasizing transfer risk classifications and concentrations as a specific agenda item during regular meetings with bank boards of directors. But, and as reported by the General Accounting Office, the presentation of ICERC evaluations could have been more forceful and clear in its purpose, more uniformly implemented by the agencies, and more influential on management's international lending decisions.

## Proposals to Strengthen Supervision

U.S. bank supervisors and bankers themselves can

and should take steps to strengthen lending procedures in order to reduce the future likelihood of accumulating large high risk exposures overseas. Those steps should ensure that banks at least do not profit from difficulties that may arise and, in fact, may pay a penalty. The steps also should involve increased incentives or regulations to avoid excessive concentrations While developing countries will continue to need additional bank credit in the future, banks will have an equally important need to avoid excessive international exposures.

We have been working with the Federal Reserve and FDIC to develop a way to strengthen supervision of international lending. A joint memorandum outlining a five-point program was provided to the banking committees in both houses of Congress on April 7.

The objective of the program is to encourage the banks to make prudent international lending decisions. It is based on two fundamental principles of banking—diversification of risk and the maintenance of adequate financial strength to deal with contingencies. The program promotes earlier recognition of international lending problems, encourages orderly responses to these problems, and provides for strong reserves should severe problem loans develop. The program is an integrated package—all elements are necessary to accomplisn the objective.

The program elements are:

1. Strengthening of Country Risk Examination and Evaluation. The federal banking agencies must strengthen the Interagency Country Exposure Review Committee (ICERC) process and the manner in which the ICERC evaluations are used in examining individual banks. Specifically, we intend to:

a. *Get management's attention.* In some cases, supervisory concerns about country risk and exposure levels have not been communicated to the highest levels of a bank, clearly, forcefully and uniformly. We intend to correct this problem by stating our concerns more explicitly and by highlighting those concerns more assertively in our reports of examination, transmittal letters, and meetings with boards of directors.

b. *Strengthen capital requirements.* If a bank decides to carry relatively large concentrations of exposure in a particular country, the regulatory agencies will expect those banks to maintain a higher level of capital.

2. Additional Reporting and Disclosure. To meet supervisory needs, the banking agencies propose that banks report their transfer risks quarterly instead of semiannually. Although this reporting would impose an additional burden on banks, such information is necessary to better monitor international exposures.

The money and capital markets also need more frequent, more uniform, and more detailed information about the international exposures of U.S. banks Therefore, such information should be made available to the public. We propose to achieve this disclosure through appropriate additional requirements in the FFIEC Country Exposure Report.

3. Prudential Reserves for Problem Loans. Some U.S. banks are not realistically recognizing the value of foreign loans with protracted repayment difficulties. We believe banks should adjust the value of such assets, rather than carrying them on their books at full value. For that reason, the banking agencies propose to establish a reserve policy for the uniform treatment of such loans.

Under such a policy, special reserves would be established for loans on which the borrower has demonstrated protracted debt service problems. Evidence to that effect would include the following factors: (a) full interest payments had not been made, (b) the terms of rescheduling agreements had not been met, (c) IMF programs had not been complied with and there was no immediate prospect for such compliance, or (d) no definite prospects existed for the orderly restoration of debt service. The reserve would be charged against income in an amount to be determined by the bank regulatory agencies each year and would not be considered as capital and surplus. We would establish this reserve mechanism through appropriate changes to our Consolidated Report of Condition and Income.

4. Changes in Accounting for Fee Income. Neither generally accepted accounting principles nor bank regulatory reporting requirements specify how loan fees should be recognized as income. Fees received in conjunction with international credits, including reschedulings, typically represent both expense reimbursements and yield adjustments. The only portion of a fee that should be taken into current income should be the amount that represents costs directly incurred in putting the loan together. Otherwise, current income may be distorted and an inappropriate incentive to lend would be maintained. For that reason, the banking agencies are prepared to amend their Report of Income and establish rules to require banks to more realistically recognize fee income

5. Stronger Cooperation With Foreign Bank Supervisors and IMF The interdependence of the international financial system requires the coordination and ha

monization of our efforts with those of bank supervisors in other countries as well as with the IMF.

a. *Cooperation with other supervisors.* Such cooperation can reduce competitive inequities by facilitating more consistent treatment of all international lenders. It will also increase the effectiveness of our efforts with U.S. banks.

The systems of bank supervision in other countries are operationally different from ours. The differences reflect differences in convention, form of government, and the attitudes toward bank supervision. However, international generally accepted accounting principles are followed in the world's major banks. Policies for income recognition and reserves for troubled loans generally have been established by banking authorities. Most countries have elaborate systems of bank supervision, including on-site examinations. But no other country requires the degree of public disclosure of banks' activities that we require for U.S. banks.

There is broad consensus among countries about what needs to be supervised. Bank supervisors in the G-10 countries and elsewhere believe that banks should be supervised on a worldwide consolidated basis and that no international activities by banks should escape supervision.

In addition, bank supervisors have set supervisory standards for banks' activities in three areas: foreign exchange dealing; monitoring foreign exchange and liquidity positions; and consolidating and evaluating country exposure.

These principles of supervisory responsibility are spelled out in the Concordat of the Committee on Bank Regulation and Supervisory Practices at the Bank for International Settlements in Basle, Switzerland. The Concordat deals only with supervisory responsibilities; it does not include any lender of last resort responsibilities. The Committee is comprised of central bankers and supervisors from the G-10 countries and Switzerland. The OCC has been a member of this committee since 1978.

b. *Cooperation with the IMF.* The IMF can play an important role in strengthening overall supervision of international credit. The Fund has access to data on the external borrowing of its member countries. Therefore it could help banks and their supervisors by publishing more international lending information and by placing limits on public sector borrowing of countries undertaking IMF programs.

Proposed Legislation

The federal banking agencies believe they can implement this five-point program under existing authority, including the Financial Institutions Supervisory Act of 1966. However, Congress may wish to specifically indicate that this authority exists and should be used in the areas covered by our program. To that end, on April 15, we submitted a draft proposal for Congressional consideration. That draft suggests broad legislation to clarify and strengthen our existing authority to implement the five-point program. We continue to believe it would be undesirable to establish inflexible or inconsistent statutory rules that could limit the agencies in adapting the program to market and environmental changes as they occur in the future.

Although it has been suggested that the FFIEC should have a greater role regarding international lending supervision, we strongly disagree. Cooperation and coordination among the agencies has been substantive and excellent as far as establishing policies, practices and procedures for international supervision.

Finally, we are opposed to establishing country lending limits. The concept of putting a ceiling on a bank's total exposure to individual countries appears to be a simple direct solution to current international lending difficulties. However, country lending limits are neither a practical solution for immediate problems nor a desirable mechanism to deal with the problem of transfer risk over the long term. This is true for a number of reasons.

It would be very difficult to shift bank portfolios from today's composition to one that would conform to any meaningful limit. A basic decision would have to be made on how to set the limits. It would be politically and diplomatically difficult to set different limits for different countries. Therefore, we must assume that there would be one limit, probably based on bank capital, for every country. A number of major U.S. banks, however, have large exposures in one or more countries. Much of this credit has been extended to countries that are not experiencing economic difficulties. For example, a number of banks have exposures to Canada, Japan, the U.K. and other industrial countries well in excess of 100 percent of capital. Imposition of uniform country lending limits would require banks to reduce these exposures as well as those to more troubled borrowers.

The consequences of reduced credit flows to these countries, which include our allies and trading partners, clearly would be undesirable. These countries might find it necessary to replace this capital shortfall by pulling their loans and investments out of the United States.

A complete curtailment of future credit flows to the

NLDCs, much less an absolute reduction in current exposures, would be no more desirable. Such action would seriously impede the ability of NLDCs to generate sufficient economic growth to repay loans from U.S. banks or anyone else.

It is difficult to justify absolute limits on transfer risk without at the same time limiting other concentrations of risk, including lending to particular domestic sectors or geographical regions. I would not favor those types of absolute limits either. On balance, then, I believe it would be inappropriate to impose country lending limits on U.S. banks.

## Conclusion

U.S. banks' foreign loans present significant problems both to banks and to bank supervisors. However, I believe these problems are manageable.

It is not possible or desirable to make immediate reductions in the U.S. banks' exposures overseas. To do so would cause an immediate credit contraction and precipitate the very crisis that we are all working to avoid.

Instead, what is needed is the extension of additional credits to meet the pressing needs of borrowing nations pending adjustment and the restoration of economic growth. These efforts have been coordinated and must continue to be carried out by all interested parties: multilateral agencies, Western governments, banks, and the borrowers themselves. To that end, we strongly support an increase in IMF quotas and the GAB.

At the same time, we need to strengthen our supervisory procedures. We intend to take the following actions:

1. Improve country risk examinations and evaluations and strengthen the link between loan concentrations and capital;
2. Require improved information and disclosure about U.S. banks' exposures overseas;
3. Require special prudential reserves against loans to countries with a history of protracted payment difficulties;
4. Change the accounting treatment of fees for international loans so that they are taken into income over the life of the loan; and
5. Coordinate our efforts with those of bank supervisors in other countries and with the IMF.

Ultimately, the condition of U.S. bank loans overseas is a function of the state of the worldwide economy. Banking is, by its very nature, the business of taking risks. Inevitably, there will be countries in the world that are experiencing economic difficulties, and U.S. loans to those countries will reflect those problems.

Today, we are recovering from a worldwide recession that has taken a heavier than expected toll on U.S. bank loan portfolios, both domestic and international. Our ultimate goal, therefore, must be to restore stable, non-inflationary economic growth throughout the world and to maintain a free and open international trading and financial system. Our efforts to improve bank supervision and those of our counterparts throughout the world must be carried out within the context of that goal.

# Statement of C. T. Conover, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., April 27, 1983

Mr. Chairman, members of the Committee, it is a pleasure to offer my views on the competitive structure of the financial services industry. These views are not necessarily those of the Administration.

Extremely important issues confront the banking industry, the financial services marketplace, and the consuming public. These issues are not new; in the past, several major studies have produced many recommendations for reform that have yet to be implemented. Recent marketplace developments make the need for change even more pressing. There are some specific actions Congress ought to take to ensure a healthier, more competitive financial system.

## Previous Recommendations for Change

The Glass-Steagall Act was passed 50 years ago. The McFadden Act was enacted 6 years earlier. Together these statutes have become significant geographic and product restrictions on the banking industry.

As early as 1961, these competitive constraints on banking were recognized as harmful. In that year, the *Report of the Commission on Money and Credit* stated

> A multitude of regulations promulgated by the states and the federal government now govern the

kind and amounts of assets that commercial banks, savings banks, and savings and loan associations may hold. The restrictiveness of these regulations and their unequal application have handicapped these institutions in directing their lending into areas and uses where more profitable opportunities exist. The regulations also often discourage initiative and competition, which in turn reduce the contribution of the private financial institutions to economic growth. The financial system would be better able to adapt to the now unforeseen future credit needs of the economy if it were granted greater flexibility in investing. Safeguarding small depositors and the money supply, until now a main objective of investment regulation, may be better accomplished in other ways (p. 161).

A decade later, the President's Commission on Financial Structure and Regulation, known as the Hunt Commission, produced a persuasive report that stressed the need for a more competitive financial system. The Commission's recommendations were broad-based and included removing Regulation Q, relaxing geographic restrictions, and permitting depository institutions to offer mutual funds, underwrite revenue bonds, and engage in insurance activities. The philosophy of the Hunt Commission can be summarized in the following statement:

> The Commission's objective, then, is to move as far as possible toward freedom of financial markets and equip all institutions with the powers necessary to compete in such markets. Once these powers and services have been authorized, and a suitable time allowed for implementation, each institution will be free to determine its own course. The public will be better served by such competition. Markets will work more efficiently in the allocation of funds and total savings will expand to meet private and public needs (p. 71).

The report also emphasized that the needed restructuring should not be implemented in a piecemeal fashion:

> The recommendations are interrelated and the Commission urges that they be considered as a package, even though some of the proposed changes, if enacted separately, would improve the financial system. The Commission believes that piecemeal adoption of the recommendations raises the danger of creating new and greater imbalances (p. 9).

In 1975, the House Subcommittee on Financial Institutions undertook a major review of the financial services industry known as the Financial Institutions and the Nation's Economy (FINE) Study. Recommendations included removal of Regulation Q, permitting banks to underwrite revenue bonds, and the relaxation of interstate branching restrictions. The underlying philosophy of the recommendations, like that of the Hunt Commission, was that the strength of the financial system depends upon the ability of institutions to be more competitive:

> A coordinated approach is needed to strengthen our depository institutions. Artificial ceilings on interest rates paid to depositors reduce the incentive for Americans to save, discriminate against small savers, and have not succeeded in preventing disintermediation. All forms of depository institutions need broader and clearer powers with respect to both sources and uses of funds. More competition, and better informed depositors, borrowers, and investors, could provide an appropriate bicentennial for Adam Smith (p. 1.).

In January 1981 the Treasury Department released the *Report of the President: Geographic Restrictions on Commercial Banking in the United States*, which concluded that:

> . . . the McFadden Act . . . and [the Douglas Amendment] are increasingly ineffective, inequitable, inefficient and anachronistic, and that the existing *de facto* system of interstate banking should be ratified and further liberalized through a phased relaxation of current geographic restraints (p. 17).

These major reviews of the financial structure in the 1960s, 70s, and 80s produced numerous, consistent recommendations for change. Those recommendations were grounded in the belief that many of the restrictions on banks that had been enacted decades earlier were no longer serving a valid purpose, and that the consuming public would benefit directly if they were relaxed. This assertion remains true today. Unfortunately, with the exception of the phase-out of Regulation Q, little substantive deregulation of banking has occurred through Congressional action.

## Market and Legislative Developments

Ongoing marketplace and legislative developments heighten the need for further deregulation. In the decade since the Hunt Commission boldly stated that banks were too heavily regulated, the environment in which financial institutions operate has continued to change dramatically. Both technological and economic forces have provided the incentive to change, and less regulated financial institutions have led the trend

toward innovation. Hampered by regulation, banks have been less able to respond innovatively.

### Technological and Economic Change

Rapid technological advances have streamlined financial transactions and greatly enhanced the ability of banks and other institutions to deliver financial services. The year the Hunt Commission Report was released, automatic teller machines (ATMs) were a relatively new phenomenon, with just over 1,000 installed across the country. By 1981, there were over 19,000 ATMs, and projections indicate that by the end of this year, there will be over 40,000 nationwide. Many of these new installations are part of interstate networks that are bringing together different types of institutions in diverse geographic areas.

Coincident with the advent of this technological revolution were changes in the economic environment. Unprecedented high and volatile interest rates of the late 1970s and early 1980s made it difficult for depository institutions, subject to rate regulation, to attract funds from increasingly rate-sensitive depositors.

### Innovations by Non-Depository Financial Service Firms

Armed with new technological capabilities, competitors not subject to interest rate ceilings, geographic barriers, and product constraints found new market opportunities. Money market funds experienced rapid growth from under $2 billion in 1974 to well over $200 billion in 1982, by offering a market-rate, liquid, transaction instrument.

In 1977, Merrill Lynch introduced the Cash Management Account, a more far-reaching product innovation that combined a money market fund, a debit/credit card, and brokerage services. In only 5 years this account has gained phenomenal public acceptance, serving nearly 1 million customers with $13 billion in their CMA accounts. Other brokerage houses quickly followed suit with similar asset management accounts. Even broader product packaging is occurring in such newly merged financial firms as Shearson/American Express; Sears/Dean Witter/Allstate Savings/Allstate Insurance/Coldwell Banker; and Prudential/Bache.

These nonbank financial service firms, many of which are offering essentially banking services, also enjoy the ability to operate nationwide. The geographically diverse customer base and branch network of Sears, for example, gives it marketing latitude unavailable to banks. Sears has over 2,800 sales outlets and related real estate and brokerage offices in 50 states. Sears owns the 24th largest savings and loan association with $3.5 billion in assets. It also has the second largest number of credit card accounts, over 24 million, and the third largest volume of outstanding credit card balances, nearly $7 billion.

### Bank Responses to Competition

Banks and thrifts sought to respond to this new competition by structuring their corporate organizations and limited array of permissible products in complicated ways. In order to avoid deposit rate ceilings, banks and thrifts began introducing hybrid accounts such as retail repurchase agreements, sweep accounts, and complex packages of savings and checking accounts combined with low rate deposit loans.

Fortunately, some of the more complex and costly product responses to high interest rates are largely a thing of the past due to the current phaseout of Regulation Q and the establishment of the Money Market Deposit Account. However, the lesson from these events—that the marketplace will find a way to meet consumer demands—has not been learned. Many product and geographic restrictions still exist for banks, also resulting in complex and costly responses.

Loan production offices, for example, enable banks to provide some services on an interstate basis. Separate Edge Act offices permit other services to be offered without geographic restriction. Consumer finance offices and ATM networks can offer still others. More recently, the advent of deposit brokering through securities firms has even made it possible to gather deposits across state lines. However, interstate expansion in traditional ways, through brick-and-mortar offices, is still effectively limited for banks. The consumer pays the price of the inconvenience caused by such fragmented delivery of services.

Forcing financial institutions to follow such circuitous routes to meeting the public's needs serves no useful purpose. It results only in lost benefits to the public.

### Changes in Bank Regulation

For the most part, legislative and regulatory changes have been slow in coming despite these marketplace developments. After major lobbying by consumer groups, Congress directed the phaseout of deposit interest rate ceilings in 1980. Similarly, because local usury ceilings had become so far out of line with market interest rates, with serious consequences for affected consumers and institutions, a temporary federal preemption of state usury laws was passed in 1980. A more permanent preemption is now under consideration.

Congress has also broadened the asset powers of savings and loan associations, savings banks, and credit unions. Thrifts can now offer as broad a range of services as commercial banks. Moreover, they are subject to less stringent geographic limitations. And their holding companies and service corporations have substantially greater powers than similar banking organizations.

Actions at the state level also signal the recognition of legislators that marketplace changes are requiring legislative responses. Beginning with NOW accounts in the mid-1970s, state legislators have shown a willingness to be in the forefront of the deregulatory effort. Recently, South Dakota and Delaware enacted laws allowing out-of-state holding companies to charter limited-purpose banks in their states. In addition, South Dakota now permits state-chartered banks to engage in all facets of insurance activities. Maine, Minnesota and Delaware are currently considering legislation authorizing such activities. In California, a law will soon go into effect which authorizes expanded securities and real estate activities.

Illinois, Pennsylvania and West Virginia have greatly liberalized intrastate geographic restrictions, and serious legislative efforts are underway in other states. Alaska now permits out-of-state institutions to own banks within its borders, and New York has enacted reciprocal interstate legislation. A major regional interstate experiment is taking shape in New England. Laws permitting emergency interstate mergers of troubled institutions have been enacted at both the state and federal level, most recently in the state of Washington, where the largest banking merger in U.S. history is now pending.

These legislative developments and the marketplace changes of the last few years have had a major impact on the functioning of the financial industry. Every time product and geographic constraints have been relaxed or circumvented, the response of the marketplace has been swift, significant, and to the benefit of the public. These responses validate the recommendations of the Hunt Commission and FINE Study. Unfortunately, further deregulation of the banking industry does not seem imminent in our national legislature.

## Opposition to Deregulation

The most striking aspect of the continued failure to legislate substantive deregulation is that large segments of the financial services industry itself have been a primary source of resistance. Preventing market entry is a classic means of protecting the profits of those already in the market. Thus, some bankers oppose the removal of restrictions on entry into their product and geographic markets. Those in the securities, insurance, and real estate businesses oppose the removal of restrictions that serve to protect them from competition. In fact, each segment of the financial services industry benefits in some way from the restraints on competition provided by the Glass-Steagall Act, the McFadden Act, and the Bank Holding Company Act. For the past 50 years each segment has been largely successful in supporting the retention of competitive restraints.

The primary beneficiary of deregulation of the financial services industry would be the financial services customers—individual consumers, small businesses, and large corporations. As I noted earlier, the benefits to consumers of a more competitive financial marketplace were recognized as early as 1961 by the Commission on Money and Credit, and noted even more strongly by the Hunt Commission and subsequent studies.

The spectacular growth of the newly authorized Money Market Deposit Account demonstrates that when banks and thrifts gained the ability to offer a competitive product, they met a demand that was not entirely satisfied by other financial services providers. Consumers demand competitive products, and they are best served when competitors are free to respond to their demands.

Additional beneficiaries from the removal of barriers to competition, of course, would be the numerous banks, thrifts and other financial service firms that are prepared and eager to respond to the marketplace if permitted. They recognize that long-term competitive viability depends on the ability to respond to market changes without severe constraints on product or geographic decisions.

## Recommended Product and Geographic Deregulation

My Office still maintains its long-held belief that the banking industry is too heavily restricted. We supported the removal of Regulation Q, and we continue to support the elimination of geographic barriers, and expansion of product powers for depository institutions. These restrictions are anticompetitive, create competitive imbalances, penalize the public, and ought to be removed.

Banking organizations should be allowed to offer a broad array of financial services, specifically including insurance underwriting and brokerage, securities underwriting and brokerage, and real estate brokerage. I also believe they should be able, with limitations, to

engage in real estate development and to make equity investments in real estate.

Banking organizations ought to be able to offer these services over an unrestricted geographic range. There are many steps that can be taken to liberalize branching powers. An immediate, highly desirable step would be to change the definition of a branch to exclude unmanned banking facilities. Consumers would gain the added convenience of being able to make relatively simple transactions at ATMs, while banks in the area would still have the competitive advantage of offering full-service banking. Additionally, states should be encouraged to permit statewide branching. As soon as is feasible, the restrictions imposed by the McFadden Act and the Douglas Amendment to the Bank Holding Company Act should be eliminated. If a transition period is required, interstate expansion could be allowed on a regional basis. To that end, I applaud the regional experiment that has been proposed in New England. Similarly, metropolitan areas that cross state lines would also benefit greatly from unrestricted bank branching.

### Limiting Banks' Exposure to Risk

Product and geographic restraints on banks must be relaxed, because banks must be able to meet the needs of the marketplace in order to thrive, and because the consumer will benefit. Any restrictions on banks' market activities that are retained should be justified by legitimate public concerns, not the protection of special interests. Chief among those concerns is maintaining confidence in our payments system and avoiding a threat to our money supply. Because of these concerns, we try to insulate banks' capital and liquidity from certain risks in order to maintain banks' solvency.

Other traditional public policy concerns are that credit be allocated based on arms-length, marketplace considerations rather than extended preferentially to insiders or affiliates, and that undue concentrations of economic power be avoided. These concerns have led Congress to carefully separate banking and commerce.

Our task is to devise ways of expanding banking activities to benefit the public, while meeting these public policy concerns. It is important to note that these concerns apply equally to any organization that offers banking services, regardless of its legal form. Therefore, since thrift institutions may now engage in the key bank activities that give rise to these concerns (transaction accounts and commercial lending), any structure that we devise ought to apply equally to banks, savings and loan associations and savings banks.

The expansion of bank activities through the holding company vehicle with appropriate safeguards is a good way of expanding bank powers within these public policy constraints. This is the essence of the Administration's bank holding company proposal submitted last year. I support this approach.

### Nonbank Banks

Similarly, various organizations to which my Office has issued charters are able to operate unconstrained by the product and geographic restrictions of the Bank Holding Company Act. By limiting their activities to retail banking and not making commercial loans, these so-called "nonbank banks" avoid the threats posed by the mixing of banking and commerce, yet afford consumers the benefits of expanded services. Such banks can be owned by holding companies that engage in a variety of other financial services, including insurance, real estate, and stock brokerage. Such organizations may also engage in non-financial activities.

The bank, however, is effectively isolated from the risks of these other activities. The other activities are performed in subsidiaries of the holding company, not in the bank. The bank cannot own stock in its affiliates, nor (since it does not make commercial loans) can it lend to them. Thus, neither the bank's capital nor liquidity is directly placed at risk; insured deposits are not used to support other activities; and commercial loans are not made to affiliates on preferential terms—they are not made at all. Thus, I believe the conflict of interest abuses that Congress has sought to prevent by separating banking and commerce are thereby precluded.

However, it is precisely these issues that Congress must debate. Yet the debate threatened to become too narrowly focused on the nonbank bank issue—only a small part of the changes occurring in the financial services industry. For this reason, I declared a moratorium on charters for nonbank banks to allow Congress to fully debate the broader issues.

### Market Discipline

Regardless of how we attempt to isolate a bank from new risks, however, whether in holding company subsidiaries or in other ways, the risk of banking as a business will increase. Such increased risk is inevitable, with or without further deregulation. The risk we choose if we do not deregulate is one of a deteriorating industry which lacks the flexibility to respond efficiently to the changing marketplace. If we allow the industry to become more competitive, on the other hand, we will be allowing the banks themselves to

choose the type of risk they assume. This is a necessary ingredient of a healthy and dynamic industry.

As statutory restrictions are removed, however, we cannot totally rely upon bank regulators to limit the risks posed by new activities. The discipline imposed by those statutes and by active supervision must be supplemented with the discipline of the marketplace. We must ensure that the marketplace has the information necessary to evaluate an institution's risk through adequate disclosure. We also must ensure that the banks themselves have adequate protection, in the form of liquidity and capital, to absorb the risk they are undertaking. And finally, our deposit insurance system should be modified so that each bank and its large, uninsured depositors share in the risks that the bank chooses to assume.

## Conclusion

We recommend that Congress proceed with the comprehensive financial deregulation that has been advocated for over two decades by both Republican and Democratic administrations. The health and vitality of the banking system and the financial services industry depends upon creating a more competitive climate for all market players.

We caution against becoming distracted from this primary task by innovations taking place in the market, in the regulatory agencies, and in state legislatures. Developments such as state deregulatory actions and nonbank banks represent natural market responses to the imbalances existing in our system of financial regulation. They should be viewed as evidence of the need for moving ahead with further deregulation. It is time that we got on with the task ahead of us.

# Remarks by C. T. Conover, Comptroller of the Currency, before the Reserve City Bankers Association, Boca Raton, Fla., May 10, 1983

## "Domestic Lending: Fundamentals Still Matter"

I am delighted to be here today to discuss a subject that has not been given a great deal of attention recently: domestic lending. Over the past year, international loans have garnered most of the headlines. But I believe that domestic lending deserves an equal share of the limelight for three reasons. First, domestic lending remains the keystone of U.S. banking. Second, the risks involved in domestic lending have significantly increased. And finally, management of the basics of domestic lending still matters.

### Domestic Lending Remains the Keystone of U.S. Banking

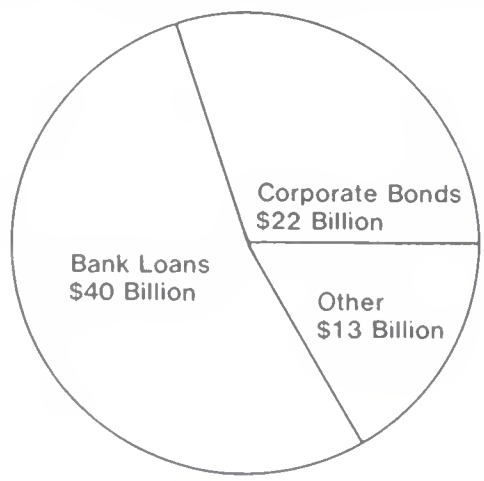
In recent years, domestic loans have consistently accounted for two-thirds of U.S. banks' total loan portfolio. This pattern has persisted despite increasing U.S. bank involvement in overseas lending.

Banks have provided roughly a third of all new commercial credit, despite increasing competition from other lenders. In 1982, largely because of the recession and continued high interest rates in the bond market, banks provided over half of new commercial credit. However, over the long term, as interest rates fall and corporations return to the capital market, bank loans will probably account for a smaller proportion of total commercial credit in the U.S.

### Lending Risks Have Increased

It should come as no surprise that the risks involved in

**BANK LOANS WERE THE LARGEST SOURCE OF NEW BUSINESS CREDIT IN 1982**




Source: Federal Reserve

commercial lending have significantly increased. Asset quality has deteriorated, interest rates have become more volatile, and competition for banks in commercial lending has grown dramatically.

#### Asset Quality is Deteriorating

The recent recession was both broad and deep. Beginning in July 1981, the country suffered the second of two back-to-back recessions that brought the unemployment rate by yearend 1982 to nearly 11 percent—its highest level since the early 1940s—and capacity utilization to its lowest point in the post-World War II period. Both nominal GNP growth and real economic activity declined. At the end of 1982, real

gross national product was no higher than in 1979. The recessions of 1980 and 1981–82 bracketed the shortest economic expansion in 50 years.

Throughout this period, businesses saw a significant increase in their interest expenses. By 1982 their interest expense burden had hit 20 percent of their cash flow, surpassing the previous high set nearly a decade earlier.

Moreover, the entire business environment was depressed. In 1982, business failures reached their highest rate since the 1930s. And the 1982 failure rate was triple the rate 5 years earlier.

The recent recession made itself felt in virtually every sector of the economy. During the 1974–75 recession, the major casualties were the REITs, tanker ships, New York City, and W. T. Grant, a major retailer. But in 1981–82, the list of ailing groups included thrift institutions, airlines, agriculture, oil and gas, nuclear power plants, housing, small businesses, less developed countries, forest products, and state and local governments.

Throughout much of this period of recession, most banks coped well with the problems of their borrowers. Now, however, the effects of the recession are being felt on bank balance sheets, particularly the asset side. Problem loans and criticized assets are increasing significantly. In large national banks, classified assets have risen to 75 percent of capital, compared to about 38 percent for all banks.

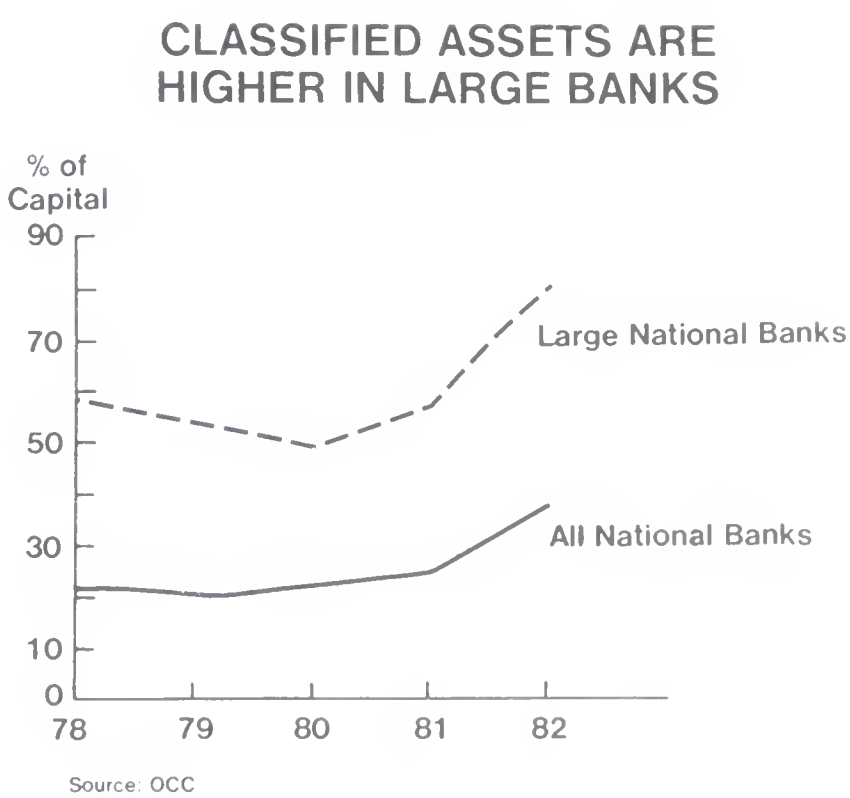
Non-accruing loans have increased, most notably at large banks. For banks under $1 billion in assets, non-accruing loans accounted for slightly more than 1 percent of their domestic loan portfolio, compared to 4.5 percent for banks over $10 billion.

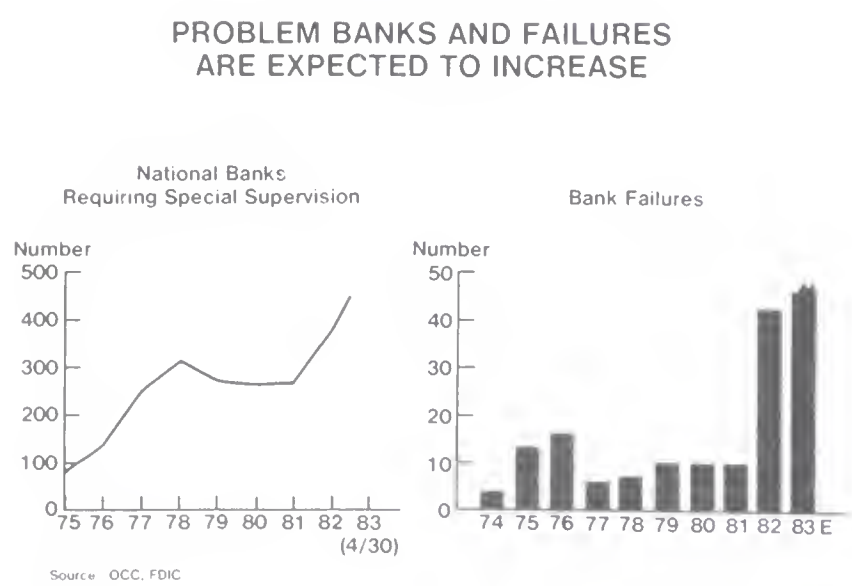
Loan losses have risen sharply for banks of all sizes to between 0.4 and 0.6 percent of total loans. For large banks, however, the percentage of loan losses is nowhere near the previous high of more than 1 percent of total loans in 1976.

Not surprisingly, large banks as a group are setting aside increased reserves to reflect expected increases in loan losses. That action is important, because loan losses for the banking industry are growing much faster than income. In 1979, bank earnings were more than seven times loan losses. In 1982, earnings were only three times loan losses.

Unfortunately, increases in loan losses generally lag recessions. If that pattern holds true for the period following the most recent recession, we can expect still higher loan losses this year and perhaps next year as well.

For all these reasons, we can also expect further increases in both problem banks and bank failures this year and perhaps next year. At the end of the first quarter this year, there were 450 national banks requiring special supervisory attention. We had 42 bank failures last year, and so far this year, banks are failing at the rate of about one per week.




## Interest Rate Volatility is High

By almost any measure you choose, interest rates have fluctuated dramatically in recent years. In 1980 alone, the prime rate rose to 19 percent, dropped to 11 percent and rose to an all-time high of 21.5 percent by yearend. As a result, the money market funds flourished. And deposits subject to Regulation Q ceil

ings left the banking industry and then came back in the form of short-term, market-rate liabilities.

In response, banks have restructured their assets to increase their rate sensitivity. Large banks have been particularly successful in increasing their asset rate sensitivity. By yearend 1982, rate sensitive assets with maturities of less than 1 year accounted for 63 percent of their total assets, while market rate liabilities totaled about 61 percent. In fact, for large banks as a group, the difference between rate-sensitive assets and liabilities is quite small—a positive gap of only 2 percent of assets in 1982. Although large banks as a group have been successful in reducing their interest rate risk, the problem still exists for individual banks.

### Competition is Increasing

Banks are facing increasing competition from other suppliers of commercial credit. They must compete with increasingly active foreign banks, a thriving commercial paper market, thrift institutions that have gained significant new powers, and non-depository competitors that are showing an increasing interest in the financial services market. As a result, interest rate margins are under pressure.

In the last few years, foreign banks have significantly increased their involvement in the U.S. commercial loan market. The total volume of foreign bank lending in the U.S. has quadrupled in the past 5 years, a much sharper increase than the overall rise in domestic bank lending. Foreign banks now account for almost 20 percent of the U.S. commercial loan market—almost double their share 6 years ago.

The commercial paper also competes head-to-head with U.S. banks' commercial lending operations. In 1982, commercial loans at large banks (over $1 billion) totaled $206 billion, compared to $133 billion in commercial paper issued by non-bank related firms. Because corporate financial statements were significantly weaker throughout 1982 as a result of the recession, an increasing number of companies again turned to banks for loans rather than issuing their own commercial paper. For that reason, the volume of commercial paper outstanding at yearend had not increased from the previous year. For the first time in a number of years, banks gained significant market share at the expense of commercial paper. However, this probably was a temporary phenomenon. As economic conditions continue to improve, it is likely that the volume of commercial paper will again begin to climb.

Thrift institutions pose the newest competitive threat to bank commercial lending. At the moment, however, that threat may not seem particularly significant. S&Ls are still in poor financial condition as a result of their recent problems and their current asset mix. Moreover, they lack managers experienced in commercial lending, and they have not had much time to decide how to use their new powers.

But bankers cannot afford to be complacent about the threat posed by S&Ls. They have significantly lower operating costs than banks—their costs total about 1.5 percent of assets, compared to almost 3 percent of assets for commercial banks. They also have new authority to offer commercial loans—up to 10 percent of their assets beginning in 1984. Even with that limit, they have the potential to gain 18 percent of the total $380 billion commercial loan market.

The perception that S&Ls are limited to 10 percent of their assets in commercial loans is incorrect. Thrift institutions have considerably greater lending potential in the commercial credit market as a whole. For example, they can make commercial real estate loans equal to 40 percent of their assets. They can extend floor plan financing and other types of "consumer" loans up to 30 percent of their assets. Leasing can account for 10 percent of their assets. There is no limit on their activities in commercial paper, commercial lending via overdraft privileges, and municipal debt. And there is no statutory requirement for an S&L to extend any mortgage credit whatsoever. In fact, S&Ls' total non-mortgage lending potential is $700 billion—100 percent of their total assets and almost double the total of bank commercial loans outstanding.

Finally, banks are facing a competitive threat from non-depository organizations—securities firms, insurance companies, finance companies, and other diversified companies. In the past, banks had an edge over many of these other competitors in the commercial and consumer loan market. But now, because of laws restricting bank activities, some competitors have a clear edge in providing certain kinds of financial services and in their ability to expand geographically.

## Management of Basics Still Matters

In short, then U.S. banks are facing substantial risks in their domestic lending activities, the keystone of their operations. These increased risks stem from deteriorating asset quality, highly volatile interest rates, and increasing competition for banks in the commercial lending market. In the face of these risks, one fact has become unmistakably clear: the fundamentals of lending are still very important.

That fact is illustrated most clearly by an examination of the factors that have caused the recent problems in

the banking industry. The vast majority of bank failures in the past few years were caused not by problem foreign loans, which have attracted the most media attention, but by domestic loan losses.

The fundamental, recurring reasons for these problem loans can be read straight out of the *Comptroller's Handbook for National Bank Examiners*. They include: excessive concern about providing income; compromise of credit principles; complacency about supervising loan performance or obtaining credit information; poor selection of credit risks; self-dealing; and overlending.

In addition to avoiding these pitfalls, there is no substitute for the basic principles and processes of commercial lending. You probably know these principles and processes better than I do. They include weighing risk against reward, diversification, ensuring adequate collateral, maintaining internal controls, asset and liability management, credit review and loan approval processes, and profitability measurement. In light of the importance of domestic lending and the additional risks involved in making commercial loans, these things become particularly important. They are things that well-managed banks do well.

It should be clear from this brief review that U.S. banking faces some major challenges in domestic lending. I believe it is important to significantly expand the product powers of banks and to eliminate geographic restrictions that unnecessarily inhibit their ability to compete. Nevertheless, even with all the razzle-dazzle of technological and market innovations, the fact is that the fundamentals of banking still matter a great deal.

## Statement of Robert B. Serino, Director, Enforcement and Compliance Division, before the Permanent Subcommittee on Investigations of the Senate Committee on Governmental Affairs, Washington, D.C., May 24, 1983

I am pleased to have this opportunity to express the views of the Office of the Comptroller of the Currency (OCC) concerning the problems and abuses connected with certain offshore institutions and corporations. The subject is one that deserves close scrutiny, and we commend the Subcommittee for its efforts. We look forward to working with you in the future to develop solutions to these problems.

The OCC's jurisdiction is limited to regulation and supervision of approximately 4,600 national banks and their branches or subsidiaries. While we may lack jurisdiction over offshore shell banks and their licensing authorities, we are fully committed to finding solutions to the problems created by such banks because of the danger that these banks pose to the integrity and assets of the banking system.

Certain offshore shell banks have caused serious losses to individuals and financial institutions through fraudulent operations. The crisis, however, is not the size of loss to any one person or bank, as much as it is the volume of such frauds being perpetrated upon a substantial number of victims throughout the world.

I will begin with a brief overview of the nature of the problem. I will then describe the OCC's action to date. Finally, I will recommend further action necessary to combat the problem.

### The Problem

There are two basic aspects of this problem. The first is the offshore financial institutions and corporations that have been used to perpetrate frauds. The second is the proliferation of illegitimate brokers who misrepresent themselves as having many millions of dollars from offshore sources available for deposit or loan at reduced rates.

#### Offshore Shell Banks

There are clear distinctions between fraudulent offshore shell banks and offshore bank offices that are operated by legitimate U.S. banks and long-established, large multinational banks. These latter banks are fully capitalized and well staffed, and provide complete commercial and merchant banking services. Further, they maintain actual correspondent bank relationships with other large multinational banks for orderly check payment and clearing processes.

This Office does not have information about the total number of offshore shell bank licenses issued nor do we know about the actual operations of all of the licenses known to exist. We are knowledgeable about certain offshore shell banks that have been used as principal vehicles to perpetrate substantial frauds. These are the institutions that I wish to address today.

The offshore shell bank is just that — a shell, it is a "suitcase" operation. For the most part, there has been no actual capitalization, no actual main office or place of business. There is no staff, fixed-asset investment, or the other accoutrements of an actual bank. A license is issued usually upon receipt of relatively nominal fees and minimal background verifications. A local person, usually a solicitor, is required to act as a resident representative. The solicitor then becomes the mail drop and answering service. For the most part, the license does not allow the "bank" to conduct business with the country's residents and local businesses but only "off-island." Attendant with the registration of the license is a list of banking powers which permits the bank to perform a full range of "financial services."

Once an individual bent on perpetrating a fraud is in control of a banking license issued by an offshore jurisdiction, it offers limitless possibilities to his endeavors. An offshore bank license enables an individual to exploit the investigative difficulties and complexities encountered when criminal activities extend beyond the sovereign limits of a single nation. These problems are exacerbated when secrecy laws prevent cooperation of the offshore government.

Operations of Fraudulent Shell Banks. After obtaining the license, the owner/operator sets about to establish "credibility." There are countless ways this is done. The bank may assume a name similar to a major legitimate institution. It may open a checking account in a major bank and represent to the public that the major bank is its "correspondent." It may place an ad in recognized world bank directories or publications.

These shell banks may defraud the public and legitimate banks in several ways, including:

- Solicitation and acceptance of deposits based on promised high rates of return. Although the original customers may, in fact, receive a high rate of return, once the "credibility" is established and a sufficient number have been duped into the Ponsi scheme, the funds are diverted to the owners of the bank.
- Issuance of fraudulent instruments, such as certificates of deposit or letters of credit, that are subsequently pledged as collateral to secure extensions of credit from a legitimate financial institution.
- Issuance of fraudulent instruments to be used as an "asset" in a financial statement of a company closely associated with the fraud perpetrators and as "flash money" in other instances.
- Seeking "float time" by issuing cashier's checks and other official checks or drafts at a small fraction of the face amount or in exchange for a personal check. This is done with the understanding that when the items are sent through for collection the operators of the bank will delay or confuse the collection process and thereby interfere with identification of a fraud.
- False verification that funds are on deposit in a particular account or that an individual or entity is a "valued customer."
- Issuance of letters of credit to be used as backing by illegitimate brokers who then represent they have access to large sums of money overseas.

The fraudulent offshore shell bank seldom honors any of the obligations drawn against it. Excuses usually given are:

- The obligation was drawn against an account which has been closed.
- A stop-payment order was placed on the obligation.
- The obligation is subject to third-party collateral.
- The obligation has not been received or the obligation is only a copy and payment will be made only against the original.
- The maker of the obligation has defaulted or has been discovered by the "bank" to be an unacceptable customer risk.
- The instrument is not an obligation of the bank because it was fraudulently issued by a "former employee" of the bank without authority.

Individuals are defrauded either by depositing funds in anticipation of a significant return or by accepting an instrument in payment of an obligation. Legitimate financial institutions suffer losses when they permit their customers to draw against uncollected funds or to negotiate transactions with a vendor based upon the backing of a phony letter of credit. Banks may also be defrauded when they make loans secured by phony certificates of deposit and other direct obligations of the shell bank.

Law Enforcement Difficulties. Detection of a fraud is hindered by the delaying tactics and the skills of the shell bank operators in convincing a victim that payment may ultimately be received. It must also be remembered that the paper of the bank is being spread worldwide and by the time a victim steps forward or action is being taken to stop the bank, many others have already been hurt. In addition, an individual or financial institution may be slow to lose faith in the legitimacy of a transaction and to overcome the embarrassment of having been taken.

When a particular shell bank is identified as being

potentially a subject of concern, the operators may buy time by claiming the bank is legitimate but that one of their "former employees" issued instruments of the bank without authority. The operators may also simply abandon institutions under investigation and obtain new licenses to continue the fraud. For example, over a period of several years, Kevin Barry Krown used at least five shell banks. He was eventually indicted and found guilty in several different jurisdictions. As part of his defense he contended that he did not know that the banks were fraudulent and, once so informed by the OCC's Banking Circulars, he stopped using them.

Some offshore authorities may be uncooperative in providing information concerning the operators of the shell bank and its assets. They may provide the name of the locally appointed representative, who is usually well regarded, but the identity of the controlling owners may not be disclosed. Further, a bank's operators are extremely careful to observe all licensing requirements and not to defraud the people in the locality in which they are licensed.

In addition, some jurisdictions may not cooperate for fear of losing the income that licensing fees provide. Moreover, many have strict bank secrecy laws that limit access to information. We have found that once the cooperation of the authorities in a particular jurisdiction is obtained or the jurisdiction is cracking down on licenses, the swindlers have turned to a new jurisdiction.

The flexibility of such an operation and its mobility throughout the world create significant jurisdictional as well as investigatory burdens for the law enforcement community. These burdens are in addition to the already difficult task created when one seeks to piece together and prosecute a "white-collar crime." Unlike a "street crime" in which the existence of a crime is usually blatant, a "white-collar crime" is, by its nature, complex and purposefully concealed. In order to uncover the fraud and then differentiate between the victims and co-conspirators, investigators must piece together several transactions occurring in several jurisdictions. It is therefore essential for law enforcement agencies that are attacking the problems created by these shell institutions to coordinate their investigations and share information available in different jurisdictions and agencies worldwide.

## Brokered Loan Fraud

Although brokered loan frauds have existed for years, the volume of such fraudulent activity has increased substantially in the last decade and has touched the entire spectrum of the banking community. I have attached copies of the Banking Circulars issued by the OCC detailing the problem.

Essentially, a brokered loan fraud involves false representations that many millions of dollars are available from offshore sources for deposit in a U.S. financial institution or to lend to individuals or businesses at a low rate of interest. At some point, fees or costs are paid by the victim and the funds are never forthcoming.

Operations of Brokered Loan Frauds. Although there are numerous variations to the scheme, an essential element to all such frauds is a positive reaction from a major institution such as a legitimate bank, an insurance company, or a securities firm. Often the process is begun through the use of intermediaries such as local attorneys, CPAs, or other persons well known to the bank who may have been duped into providing credibility to the scheme. It has often been difficult to distinguish between the active participants in the fraud and those who believed they were taking part in an innovative financial transaction.

A borrower/victim is approached by individuals who purport to represent foreign lenders (oil-rich individuals, trust accounts of wealthy foreigners, etc.) who are seeking a safe haven for their money in the United States. The funds, reported to be multimillions/billions of dollars, are offered at a rate well below current market and on exceedingly long terms, usually 20 years.

The name of the source of the funds is not revealed to the victim. The source is said to require anonymity thereby creating the need for the broker. The broker may ask for an advance fee in order to secure the funds, or the borrower may be assured that the broker's commission will be paid at settlement, however, the broker demands funds to cover "expenses" such as travel, site inspection and specification analysis. These so-called expenses frequently exceed $50,000.

The victim may be told that in order to reach settlement, he must obtain a binding commitment from his bank such as a "mandate," "letter of commitment," "bank acceptance," "escrow agreement," or "ICC Note." Using this "evidence" that the so-called broker is engaging in legitimate financial commerce, the broker may cheat other victims out of upfront fees. These latter victims are the primary targets of the brokered funds frauds.

Victims of these schemes include real estate entrepreneurs who are accustomed to paying upfront fees to their legitimate funding sources, persons seeking

funds for their business needs and banks who unwittingly become involved based on the assurance that there are no upfront fees or commissions until settlement. We have seen instances where bankers have released bank documents with the belief that they have no actual liability until the brokered funds are received. This has not prevented threats of lawsuits against banks for the credibility they brought to the scheme or for the "damages" they caused when they "backed out of the deal."

## The OCC's Involvement

Over the past several years we have noticed a rapid increase in the creation of shell banks and brokered loan frauds and have identified a significant number which have been involved in fraudulent operations. For that reason, in late 1978, we directly contacted several offshore jurisdictions to seek their cooperation. We expressed our concern over the apparent increase in the use of offshore banks in schemes to defraud. We requested that the jurisdictions, principally in the Caribbean, cooperate with our efforts and establish direct communication with us in order to:

- Exchange information concerning banking statutes and regulations;
- Provide current lists of registered banks and notification of terminated licenses; and
- Respond to inquiries concerning institutions which had come to our attention.

Information developed from offshore authorities, law enforcement agencies, financial institutions, and individuals is obtained by our Enforcement and Compliance Division. When we have obtained sufficient information indicating potentially fraudulent activity, we issue Banking Circulars. The circulars advise caution in dealing with participants, normally shell banks, and request information on transactions with them. These circulars have helped alert the industry to potential problems. In many instances, they have generated additional information about other transactions in different jurisdictions which confirmed the existence of a true fraud.

Partly as a result of our notices and our frequent direct inquiries, several jurisdictions have become concerned about their reputations for being havens for "phony banks." One jurisdiction, in fact, placed a moratorium on the issuance of licenses and reduced its outstanding licenses from approximately 200 to 20. New laws in this jurisdiction also required thorough investigation of applicants for licenses and established stringent capital requirements and criminal penalties for obtaining a license by fraud. Unfortunately, when the laws were tightened, the licensing activity moved elsewhere.

Information obtained by the Comptroller's Office is made available to the law enforcement community through referrals of potentially fraudulent activity and responses to daily inquiries from federal and state law enforcement authorities. We are also able to provide the identity of other law enforcement authorities that are investigating the same bank or individual. This coordination of sources of information is absolutely essential in putting together prosecutable cases involving shell banks.

We believe that cooperative efforts of the law enforcement and banking communities have resulted in substantial progress toward a solution to the problem. We look forward to additional successes as we focus on new solutions.

## Solutions

Several steps can be taken to make it more difficult to misuse a bank license.

### Coordination and Communication

Improved communication between law enforcement authorities on both a domestic and international basis is essential for the prompt discovery and successful prosecution of offshore shell bank or brokered funds frauds. When several jurisdictions are investigating similar transactions, it may be appropriate for a central source to coordinate the investigation and determine which jurisdiction would be most appropriate for initiating prosecution.

In the U.S., the need for information sharing among federal law enforcement authorities has been recognized and working groups have been established to work toward that objective. The possible use of the Treasury Department's Financial Law Enforcement Center's (FLEC) computer system is currently being explored.

On the international front, I recently had the privilege of participating as a member of the working group on economic crime sponsored by INTERPOL's American Region along with representatives of Treasury, IRS, Postal Service, Customs, DEA, FBI, INTERPOL's Washington National Central Bureau, and several nations. The major item on the agenda was the use of shell banks in criminal activities. The discussion focused on the need for coordination and cooperation not only in narcotics investigations but also in investigations relative to shell banks. Several recommendations were made to the General Secretariat of INTER-

POL which would, among other things, encourage the member countries of INTERPOL to aid in establishing a data base that can be used in coordinating investigations. The system of communications established by INTERPOL, coupled with the willingness of the member nations to supply information, will greatly assist in the identification, investigation, and prosecution of fraudulent operations in a more timely manner.

### Restraints on Information Sharing Should be Reviewed

The various privacy restraints such as the Right to Financial Privacy Act of 1978, the Privacy Act of 1974, the Grand Jury Secrecy Rule, and the Tax Reform Act of 1976 were all enacted for legitimate reasons. However, their effect, either actual or perceived, is to somewhat impede the free flow of information among agencies. All of the agencies and the earlier staff studies of this Subcommittee highlight a major need to review justifications for such constraints.

### Improving Banking Legislation in Offshore Jurisdictions

The most direct way to deal with offshore shell bank frauds is for offshore jurisdictions to enact legislation that would make it more difficult for fraudulent operators to obtain a bank license. Some jurisdictions have adopted such legislation which covers the following points.

- Effective bank regulation and supervision to identify shell bank frauds;
- Disclosure of information for law enforcement purposes;
- Evaluation and approval of actual owners, both in licensing and subsequent changes in ownership;
- Requirement of actual payment and verification of sufficient capital, before granting a license, in an amount that would discourage applicants bent on fraud;
- Required annual disclosure of financial condition prepared and certified by a recognized firm;
- Clear penalties for violations

The INTERPOL conference recommendations also addressed the need for such legislation.

### Elimination of Secrecy Protection for Banks Being Used for Criminal Purposes

Another potential remedy to address the fraud problem is the removal of bank secrecy protection for banks which are being used to perpetrate fraud. In turn, formal procedures must be established by which the law enforcement community can obtain information about these banks. The type of information available and the method by which it may be obtained must be made known at the international level. The INTERPOL conference recommendations also address this issue.

### Bank Fraud Statute

Often, the investigations and prosecutions of cases involving offshore shell banks or money brokers are extraordinarily complicated. Pending legislation submitted by the Administration would facilitate prosecution of shell bank cases and would eliminate some of the jurisdictional difficulties that have been created when prosecutions have been brought for frauds perpetrated on U.S. banks.

### Conclusion

I would like to thank the Subcommittee for giving me the opportunity to present the views of the OCC here today. Additional public information about the abuses connected with offshore shell banks will increase the caution exercised by legitimate financial institutions and the public when dealing with these fraudulent entities. We also hope that increased international scrutiny will convince offshore jurisdictions of the problems created by indiscriminate licensing of offshore banks. Finally, we look forward to a continuation of current efforts to enhance cooperation within the law enforcement community.

## Statement of Robert B. Serino, Director, Enforcement and Compliance Division, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, Washington, D.C., June 28, 1983

I am pleased to have this opportunity to express the views of the Office of the Comptroller of the Currency (OCC) concerning our role in the identification and prosecution of criminal violations of banking laws by bank officers, directors, and insiders. It is an area in which the OCC has been deeply interested for many years and we commend the Subcommittee for its concern.

Although the OCC has been very involved in assisting the law enforcement community in its investigations and prosecutions, I shall limit my testimony to the

questions raised in your letter of June 2, 1983. We are fully committed to aiding the law enforcement community in any way to expedite its prosecutions of bank insider violations, but we have no jurisdiction to initiate any criminal prosecution ourselves. Our remedies are limited to administrative processes.

## Criminal Referral Process

### Bank Referrals

Possible criminal violations of the banking laws may be referred to the Department of Justice by banks or by the OCC. The majority of referrals are made by national banks. This is because all national banks are required to refer to the United States Attorney and the FBI any potential violations of criminal law that come to their attention, 12 CFR 7.5225. The bank is also required to send a copy of its report to our regional office for review. Those reports are reviewed by the regional office which may request additional information or may direct further investigation by our examiners.

Most of the referrals made by the financial institutions principally deal with mysterious disappearances, tellers' shortages and "hot" check or check kiting matters. When an insider is involved, those matters are usually prosecuted as misapplications or embezzlements.

### OCC Referrals

OCC's primary responsibility is to periodically examine each national bank to determine whether the bank is operating on a safe and sound basis and is in compliance with all applicable laws, rules and regulations. Examinations cover every aspect of transactions between the bank and its directors, officers, and employees, and relationships between insiders and bank customers.

If an examination uncovers any improprieties, the examiner will determine the extent of the situation, the impact on the bank, whether administrative action should be taken against the individual or the bank, and whether there is evidence of a violation of criminal law. In addition to the normal examination process, our office occasionally receives tips concerning potential violations of law. In such cases, we may conduct special examinations.

When possible violations of criminal law are discovered during an examination, the examiner makes a written report to the district or regional administrator setting forth the facts and details concerning the alleged violation. If our regional legal staff determines that the facts indicate a possible violation of law, the report is transmitted to the United States Attorney and appropriate investigatory agencies. The regional legal staff or regional administrator also may refer the report to the Comptroller's Law Department (Enforcement and Compliance Division) in the Washington Office for review.

OCC has routinely offered and provided assistance to investigators and prosecutors. Our examining personnel have frequently testified as expert witnesses in criminal cases and have often been assigned to assist United States Attorneys' Offices for months and even years. Our willingness to assist has continuously been communicated to the law enforcement community.

### Allocation of Resources

Several members of our staff spend most of their time working with the law enforcement community. In addition, examining personnel continually work with law enforcement officials to provide information and explain referrals. In many instances, OCC personnel have been detailed to work with the Department of Justice during investigative and trial stages of cases.

We believe that a successful prosecution requires a comprehensive and detailed referral that explains the violation in a form easily understood by a prosecutor with no banking expertise. That takes a significant amount of time; however, it enhances the chances for a successful prosecution.

To improve the quality of our criminal referrals, we have spent considerable resources training examining personnel. All of our examiners are trained in certain aspects of criminal law and in the importance of carefully documenting and reporting possible crimes. Although our examiners are not criminal investigators, the OCC has, since early 1978, conducted a white-collar crime course for examiners. The purpose of this course is to give specially selected senior bank examiners, designated as "fraud examiners," an overview of the criminal justice system. They are taught a variety of subjects relating to criminal law, including investigations, interviews, testimony, and how to make an effective criminal referral. Equipped with that background and training, those examiners are called upon to assist or conduct special investigations when questionable activity is suspected. In this way, we can conduct important and sensitive investigations without disrupting the regular examination process. Additionally, representatives of the Law Department's Enforcement and Compliance Division meet frequently with examiners and regional personnel to discuss criminal law and the types of matters that should be included in criminal reports.

This office has also been developing a computer-

based system to record and track the status of all criminal referrals made by the office. That system will, among other things:

- enable this office to work even more closely with the Justice Department in tracking criminal referrals;
- keep our districts informed of the status of criminal referrals;
- provide information regarding criminal indictments and convictions to assist in our determinations of the suitability of individuals as officers, directors, and employees of national banks;
- provide long-term information on systematic offenders throughout the country; and
- enable us to respond to statistical requests such as yours.

### Disposition of Referrals

The investigating and prosecuting agencies do not, as a matter of course, inform us of the disposition of referrals made either by this office or by the banks. Usually, we obtain such information when we are working closely on a case, when we contact an agency specifically to determine the status, or when we receive FBI reports on ongoing investigations. Consequently, we receive information from the Justice Department only on a case-by-case basis.

Criminal referrals by this office are forwarded to many investigating and prosecuting authorities, including the FBI, the Postal Service, the SEC, the IRS, the Department of Justice, the United States Attorneys, and state prosecuting and investigating authorities. In certain instances in which the Department of Justice has not taken action, we are aware that matters have been referred to state authorities for their consideration. We believe that such disposition is appropriate, effective, and should be encouraged

## Administrative Responses

### Direct Agency Actions

Our decision to institute administrative action is made independently of the determination of the Department of Justice to prosecute a criminal case we have referred. Its decision does not prevent us from using our administrative remedies such as removal, cease and desist, or civil money penalty powers. Legislation passed in 1978 granting us civil money penalty authority along with a modified removal power provided additional means to address problems created by individuals rather than by institutions.

We have supplied you with summaries of our administrative actions taken against financial institutions from January 1981 to January 1983 which involved individual officers or directors. We have also provided summaries of our civil money penalty assessments against bank officials for that period.

### OCC-Assisted Actions

Although the bank regulatory agencies, under existing law and regulations, are basically limited to monitoring compliance and to ensuring the safety and soundness of financial institutions, we assist law enforcement investigations to the fullest extent possible. We have undertaken many efforts in specific cases and in developing procedures to enable us to better serve the law enforcement community. Among other things, we have:

- established an Enforcement and Compliance Division in the Washington Office in 1971,
- participated as members of several law enforcement committees, both nationally and internationally, to discuss improvements to the investigatory and prosecutory functions;
- coordinated our activities with all federal, state, local, and international supervisory, investigatory, and prosecutory agencies as much as possible;
- supplied expert witnesses and counsel to work with the law enforcement community, both federal and state, in understanding financial transactions;
- participated in study groups created to improve coordination and cooperation among concerned agencies;
- assisted and coordinated with bank regulatory and law enforcement agencies domestically and internationally to deal with frauds being perpetrated on U.S. banks and individuals through the use of offshore facilities;
- trained our examiners and examiners of other agencies and countries in the detection and documentation of financial crimes.

## Penn Square Referrals

On July 5, 1982, the OCC closed Penn Square Bank, N.A., Oklahoma City, Okla. The OCC has been in close contact with the Department of Justice in Oklahoma City, Chicago, Seattle, and Washington, D.C., since the bank's failure. Assistance and information have been provided to the United States Attorney's Office and the FBI through meetings and pursuant to grand jury subpoena. To the best of our knowledge, no indictments have been issued at this time.

The OCC has made several major, comprehensive referrals to the Department of Justice resulting from

our investigation of the Penn Square Bank. Those referrals detail the facts surrounding the problems created in Penn Square. Further referrals are being developed from voluminous documentation which was catalogued during the examination. Because grand jury investigations are pending, it would be inappropriate for us to discuss the nature of these referrals. It should be noted that the records of the bank have been in the hands of the Federal Deposit Insurance Corporation, as receiver, since July 5, 1982, and that agency has been making additional referrals.

The OCC is continuing to review the activities of Penn Square officials to determine whether to pursue civil money penalty actions and to aid the FDIC in its decision as to whether civil actions should be brought for potential directors' liability.

## Possible Improvements

### *De Minimus* Referrals

Banks and the bank regulatory agencies have historically referred all violations of law to the Department of Justice and the FBI regardless of the amount of money involved, the seriousness of the violation, or the likelihood of successful prosecution. In light of the overwhelming number of these referrals, many, because of their *de minimus* nature, are not prosecuted. While understandable from the Justice Department's perspective, this frustrates banks and bank regulators because a great deal of time and effort is spent on such referrals.

In light of the excessive work these referrals create, we believe all agencies should consider appropriate steps to eliminate the burden of making and receiving referrals that stand a remote chance of prosecution. We are evaluating the following measures:

- a minimum threshold level for reporting violations;
- a mechanism to handle the *de minimus* matters in a way other than criminal referrals;
- a central index for identifying repeat *de minimus* offenders, and
- a system to coordinate the handling of cases not prosecuted by the federal government by the states

### Legislation Concerning Bank Fraud Prosecution

As early as 1974, the OCC urged the passage of legislation to amend the misapplication statute, 18 USC 656 and the false entry statute, 18 USC 1005, because certain court cases had, in our opinion, created erroneous interpretations of the statutes. Those court opinions, together with more recent opinions that limit the utility of the check kite statute and the false statement statute, create serious problems under federal law in prosecuting bank fraud cases. We believe that a bank fraud statute such as that contained in the Administration's Omnibus Crime Bill, H.R. 2151 and S. 829, would facilitate the prosecution of bank fraud cases and would eliminate some of the jurisdictional and evidentiary difficulties that sometimes are created in the investigation and prosecution of frauds committed on national banks.

### Increased Coordination and Improved Communication

In bank fraud cases, it is essential that the agencies make effective referrals and assist the investigatory agencies in their review of the referrals. The OCC has spent a great deal of time teaching our examiners and attorneys how to properly document referrals. We also make our examiners available to the law enforcement community to assist in preparing cases for prosecution.

This office has testified before various Congressional committees that the Right to Financial Privacy Act imposes severe restrictions on the government. These restrictions, when coupled with other restraints, both actual and perceived, such as the Privacy Act of 1974, the Tax Reform Act of 1976, grand jury secrecy rules, state privacy acts, and the Freedom of Information Act, create serious problems for the government in coordinating its actions. We believe that a review should be undertaken of the various limitations, because they impede our supervision of national banks, especially when we deal with the law enforcement community.

Many of the statutory proscriptions seriously detract from the agencies' ability to fully coordinate their efforts. We believe that unwarranted barriers to the exchange of information among agencies should be eliminated to the fullest extent possible consistent with our deep concerns for the rights of individuals.

We believe, therefore, that is is important to re-examine existing law enforcement mechanisms and laws to determine if conflicting statutory limitations may unjustifiably frustrate law enforcement purposes.

## Conclusion

I would like to thank the Subcommittee for giving me the opportunity to present the views of the OCC here today. The OCC stands ready to assist the law enforcement community in whatever way we can, consistent with our mandate to examine banks, statutory restraints, and resource constraints. If the Department of Justice or any criminal investigatory agency, either

federal or state, identifies a problem involving a national bank, we ask them to bring it to our attention in order for us to determine whether we can assist them. We believe that the detection and prosecution of frauds perpetrated on financial institutions, either from within or without, are of utmost importance to the nation's banking system. We look forward to continuing our current efforts to enhance cooperation with and within the law enforcement community, and we welcome any suggestions for improvement.

## Remarks by C. T. Conover, Comptroller of the Currency, before the Spanish Association of Private Banks, Santander, Spain, July 6, 1983

## "Implications of Changes in U.S. Banking"

I am delighted to be here today to join in your discussion of the changes that are occurring in the financial services industry, not only in the United States but throughout the world as well. You have asked me to discuss the treatment of financial crises in the United States.

Let me begin by saying that I do not believe the recent events in U.S banking constitute anything close to a crisis. What is happening is a combination of innovation by the private sector and deregulation by the public sector in an economy that has been in a prolonged recession affecting every aspect of American life and is only now taking the first steps toward recovery. The result is significant change in the financial services industry—change in both the way financial service providers operate and the way they are supervised. Today I will discuss the changes that have taken place and focus on how banks and their regulators are dealing with them.

Rather than leaping into the middle of this topic, it seems more appropriate to me to back up several steps and take a look at where we are today and how we got there. More specifically, I would like to approach this subject by asking four questions:

- What is the basic philosophy of the current U.S. system of bank supervision?
- What innovations and deregulatory actions are changing this system?
- What are the implications of these events for banks themselves?
- And finally, what are the implications for bank supervision in the years ahead?

### Bank Supervision in the Past

Because banking is so vital to commerce, the U.S. government has always had a strong interest in the safety and soundness of the banking system and the integrity of the payments system. It has sought to ensure that U.S. banks provide a safe repository for the accumulation of deposits, which can then be lent to borrowers.

To that end, the government established an elaborate system of regulation, examination, and insurance. In order to limit risk, it laid out a number of regulations limiting entry to the banking system and restricting what banks could do. In so doing, it provided ground rules that everyone could understand. Those rules also tended to make all banks fundamentally alike.

The government also established a system of labor-intensive, on-site examinations in an attempt to make sure banks were complying with law and following prudent banking practices. Finally, the government insured bank deposits through the Federal Deposit Insurance Corporation so that the public would be assured of repayment in those relatively few instances when banks fail.

Within this system, banks are regulated virtually from cradle to grave. Consider the responsibilities of the Office of the Comptroller of the Currency. We supervise 4600 national banks whose assets total $1.2 trillion. We charter them. We examine them. We tell them what products and services they can offer. We tell them where they can offer their services. We have even told them what price they could pay in the form of interest rates. Finally, if they get into serious trouble, we close them down.

That's only part of the U.S. bank regulatory system. Another government agency, the Federal Deposit Insurance Corporation, examines banks that are chartered by individual states. It also insures deposits in virtually all U.S. banks up to $100,000. Still another agency, the Federal Reserve Board, examines some state-chartered banks, as well as all holding companies that own banks. That's in addition to its responsibility for functioning as the central bank for the United States.

The supervisory process in this complex system is really very simple. Bank management and boards of directors have the first responsibility to identify and correct problems within their institutions. Our job is to act as supervisors. We identify problems through examinations. We work with management to solve or eliminate problems. And the whole system is based on the assumption that banks will be more open and cooperative because approach is non-public. After all, most of our actions are remedial rather than punitive, although we do have the authority to issue legally enforceable "cease and desist" orders and remove bank management. Moreover, bankers know that our actions will be kept confidential.

The traditional rationale for not disclosing examination results or other regulatory actions is that examinations are conducted for the benefit of regulators, banks and the public, albeit not for the education of the public. Information from bank examinations has not been disclosed on the assumption that disclosure of a bank's troubles would only make them worse—that is, disclosure would reduce public confidence in the bank and might contribute to its failure. Therefore, according to this line of reasoning, far from helping the public, disclosure would actually cause harm by hurting the safety and soundness of the banking system.

The idea that disclosure could harm the public is an inherently cautious approach. It is based on a concern that the public may not be sophisticated or experienced enough to understand complicated financial information if it were to be disclosed. So, we have continued to carry out our supervisory responsibilities in relative privacy.

One result of all these government efforts has been a high level of public confidence in the banking system. In fact, public confidence is so great that most people in the U.S. don't consider the quality of bank's management or its balance sheet when they decide where to deposit their funds. Most people are concerned with convenience, services, and interest rates—not the strength of the institution itself.

## Innovation and Deregulation

It should be clear from this brief description that banks are among the most heavily regulated industries in the United States. To a certain extent, regulation has achieved its goal. The U.S. banking industry has continued to be safe and sound. But it has also stagnated.

The Reagan Administration came into office with the declared intention of deregulating. But even if that had not been our intent, we would have been forced to take some deregulatory actions. The fact is that innovation in the U.S. marketplace is driving deregulation in Washington and in the state legislatures. And government is having a hard time catching up with the market.

### Interest Rate Deregulation

The most obvious example of this phenomenon concerns interest rate deregulation. In 1980, Congress enacted legislation that required bank regulators to phase out the existing ceilings on small savings deposits by 1986. But in 1981 and 1982, inflation and interest rates climbed well above the ceilings then in place. Small savers saw the value of their savings melt away as inflation continued month after month.

The marketplace responded, as it should, with a new product to meet the market need: the money market fund. Money market funds were mutual funds managed by securities firms which paid market rates of interest because they invested solely in money market instruments. Consumers were delighted—so delighted that the total volume of funds invested in money market funds reached $230 billion by December 1982. Merrill Lynch's Cash Management Account alone was responsible for $13 billion.

The U.S. bank regulators responded to this development by authorizing depository institutions to offer their own versions of the money market fund and the Cash Management Account. On December 14, 1982, banks began offering "money market deposit accounts" that can pay market rates of interest. For all intents and purposes, interest rates have been deregulated.

### Product Deregulation

Government in the U.S. has considerably further to go in deregulating financial service products. Here again, market innovations are pushing us to get on with the task.

U.S. banks are still prohibited from offering securities services. Nonetheless, innovative banks have found a way to offer discount brokerage services through subsidiaries and still comply with the law. Never ones to be left in the dust, brokerage houses are seeking to get into the banking business by acquiring thrift institutions and banks. This spring my Office approved the chartering of a new bank by Dreyfus Corporation, a well-known securities firm.

Indeed, banks and securities firms are finding it quite profitable to work together as they break down the old product barriers. Securities firms sell bank CDs in increments as low as $500. And banks provide the

clearing mechanism for drafts drawn on securities firms' money market funds.

Congress has taken a few steps to remove product restrictions. The Garn-St Germain Act, passed last fall, makes it possible for savings and loan associations to offer a full range of banking services. Some states now permit U.S. banks to offer limited insurance services. To his credit, Senator Jake Garn, chairman of the U.S. Senate Banking Committee, has begun holding hearings on the subject of product deregulation. But no legislation appears imminent.

### Geographic Deregulation

The same can be said of the third major area in need of deregulation: restrictions on geographic expansion. State and federal laws limit U.S. banks' ability to branch or to acquire other banks outside their home markets. And until very recently, that restriction meant they were effectively confined to markets within their home states.

Here again, market innovations are forcing a review of 50-year-old restrictions. When American Express and Sears had no interest in providing financial services, no one was troubled by the fact that they operated out of a nationwide network of offices and stores. But now Sears has merged with a securities firm, Dean Witter, and a nationwide real estate broker, Coldwell Banker. And American Express has merged with Shearson, another securities firm. Suddenly their nationwide locations seem a substantial threat to banks and thrift institutions severely limited in their ability to branch outside their home states.

It should be no surprise that banks have taken action on their own. They have opened loan production offices and international banking subsidiaries in major cities across the U.S. Their holding companies own finance company subsidiaries that can also branch nationwide. Most recently, the states have joined the debate on this topic. Several states have enacted reciprocal banking laws that permit interstate banking between two or more states. While such action is to be applauded, it has not yet generated any action at the federal level.

Clearly these innovations and developments in the marketplace are setting the agenda for deregulation. They have occurred because marketplace competition has provided the incentive, and technology the means to create new services within the cracks and chinks of old, no longer tenable laws. The question now is how financial institutions and their regulators respond to these changes.

## Implications for Financial Institutions

The implications of these changes for banks themselves are substantial. For the first time, banks will be making their own decisions about funding, capital, cost and profitability measurement, and most important strategic planning.

### Funding

The deregulation of interest rates in U.S. banks has had a clear impact on bank funding. On the one hand, it has enabled banks to compete more effectively with money market funds. On the other hand, it has raised the banks' cost of funds and changed the maturity structure of their liabilities, as holders of low-interest deposits shifted into the new accounts.

The result has been more pressure on bank interest spreads, particularly in those banks that have had a high percentage of low-interest deposits. Banks will need to do everything they can to maintain their interest spreads. That means they have to answer some fundamental questions. How will they price their deposit instruments and structure their features to make them competitive, without reducing the bank's interest spread? How will they coordinate decisions on pricing and maturity of bank funds with decisions on other bank services and products? The regulators will no longer supply the answers to such questions.

### Capital

The changes in the U.S. banking environment also affect decisions on bank capital. The new environment has considerably more risks. Banks will be venturing into areas in which they lack extensive experience. For that reason, their capital will become even more important as a cushion against unforeseen problems.

Many banks cannot permit their capital to erode further. Such action is not prudent. The regulators won't permit it. In fact, banks' only choice is to continue to strengthen their capital base. The problem they face is how to do that in the new environment. Solving that problem may require a reexamination of bank dividend policy. It will also require an honest assessment of the market's perceptions regarding bank strengths and weaknesses. Banks will face the challenge of persuading the investment community that their institutions are worthwhile investments in the rapidly changing financial services market.

### Cost and Profitability Measurement

U.S. banks have always had to worry about operating costs, and rightly so. Over the past decade, bank operating costs have grown faster than assets. Bank costs today are significantly higher than those of many

nonbank competitors most notably money market funds

Now the problem is even worse It is no longer enough simply to control costs by being tight-fisted. The new environment makes what was important in the past even more important in the future. What U.S. banks need, and what most banks lack, are sophisticated cost accounting systems.

When government set the prices of specific products, and determined which products banks could offer, there was little need for such systems. But that is no longer the case. In order to make intelligent decisions in a deregulated environment, U.S. banks must be able to determine the real costs of their products and services in order to measure profitability. They need accurate information on the profitability of individual products, customer relationships—even entire lines of business.

With that information in hand, banks can begin to make some important decisions. If a product or line of services is not profitable, they can increase the price or cut costs. They can build volume or redesign product features. They may decide on some combination of these actions. But whatever they decide, their actions must be based on better information.

### Strategic Planning

It is difficult to overemphasize the importance of strategic planning for banks over the next 5 years. The changes in the financial services market are so great that I believe it will be virtually impossible for any U.S. bank to survive without developing a systematic, well-thought-through strategy for competing in the new environment.

The questions that banks must ask themselves are fundamental. What are their corporate objectives? How do they want to achieve those objectives? Whom do they want to serve—what is their market? How do they want to serve that market? What products and services do they want to provide? What delivery systems will they use? What degree of risk are they willing to take? What kind of organization do they want the bank to be—a nationwide provider of all financial services or a more specialized institution? What will be their specialty? Who are the bank's likely competitors? How can the bank capitalize on competitors' weaknesses?

## Implications for Bank Supervisors

Both deregulation and bank responses to deregulation have clear and significant implications for bank supervisors. Given U.S. bank supervisors' traditional concern for the safety and soundness of the banking system, I believe the most important implications can be summed up in two words: increased risk.

With or without deregulation, U.S. banks will be subject to increased risk. If we do not go ahead with further deregulation, banks run the risk of finding themselves relegated to a financial backwater where they will continue to stagnate. If we continue to eliminate product and geographic barriers, banks will find themselves better able to compete against Sears and Merrill Lynch—but at the cost of an increased level of risk.

The question then becomes not how to avoid risk but how to contain the level of risk in the system as a whole. I believe there are two major options. We can continue to strengthen our labor-intensive, costly system of on-site examinations of banks so that supervisors effectively second-guess bankers as they move into uncharted territory. Or we can begin to supplement the discipline of government supervision with the discipline of an informed marketplace. Given the human and financial cost of the first alternative, it seems clear to me that the second alternative is the only reasonable choice.

If the marketplace is to function efficiently and provide adequate safeguards against excessive risk, however, market participants need adequate information on which to base decisions. Additional disclosure of information about banks would benefit stockholders of those institutions that are not registered under the Securities and Exchange Act. It would benefit large depositors. And it would benefit other customers of banks, including other financial institutions.

For precisely those reasons, the U.S. bank regulators have already changed the reporting requirements for banks to collect and disclose information on past-due loans for all commercial banks. Beginning with the fourth quarter of 1982, all banks have been required to report the amount of their past-due loans. And beginning with reports filed for the second quarter of 1983, that information will be made public.

The regulators are also receiving additional information in other areas. We are requiring more data on the maturity and rate sensitivity of assets and liabilities and on commitments and contingencies. Again, that information will be made public.

We also intend to require additional disclosure of information about international loans. Specifically, we want banks to report information on their international loans quarterly, rather than semiannually And we

want them to disclose information to the public about their exposure to individual countries, the type of borrower, and the maturity structure of their international loans. The SEC already requires similar disclosures for bank holding companies.

Clearly such additional disclosure will begin to change the nature of U.S. bank regulation. It certainly will alter the traditional rehabilitative approach to bank supervision by motivating banks to avoid problems and permitting them less time to take remedial action.

The transition to increased disclosure is vitally important. We have already begun to take the first steps. We intend to work toward a system where government supervision is less important and market discipline more important in guaranteeing safe and sound banking.

# Enforcement Actions—January 1 to June 30, 1983

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## Civil Money Penalties

### 1. Bank with assets of less than $25 million

The most recent examination of the bank revealed three violations of 12 USC 84. Two of the violations represented repeat violations, one had resulted in a loss to the bank and the other loan was classified. The third violation was even more significant in size. Further, five of the last six examinations had revealed violations of 12 USC 84; a total of 14 violations. The bank had previously received written notice that continuing violations could lead to director liability.

A Civil Money Penalty of $3,000 was assessed on each board member because of the consistent and flagrant nature of the violations.

### 2. Bank with assets of $25 to $50 million

The 1982 examination cited four violations of 12 USC 84. All of the illegal loans were classified. Six of the last eight examinations had found similar violations, and the directors had been warned of their potential liability for the violations. Before the assessments were sent, a 1983 visitation revealed six more violations of 12 USC 84. Four of the most recent violations were committed after the directors had responded to the first 10-day (notification) letter. Pursuant to the violations cited in the 1983 visitation report, additional 10-day letters were sent.

Significant Civil Money Penalties were considered appropriate because of the serious, deliberate, and repetitive nature of the violations and because of the risk of loss to the bank from the illegal loans. Consequently, the president and the vice-president were each assessed a $20,000 penalty. These two individuals control the bank's operation, dominate the board, and own 86 percent of the holding company. Assessments of $4,000 each were made against the other board members, including two members who joined the board in 1981 and a former director who resigned in 1982 after serving many years on the board.

### 3. Bank with assets of $25 to $50 million

An examination revealed violations of 12 USC 84, 375a, and 375b. These violations were repetitive in nature and occurred despite previous warnings to the board of directors that policies and procedures were needed to prevent future violations. In addition, these violations occurred despite the fact that the board had agreed by resolution to become familiar with all applicable laws and to adopt procedures to prevent future violations.

A Civil Money Penalty was assessed in the amount of $5,000 against the bank's chairman of the board for his role in granting the extensions of credit in violation of 12 USC 84, 375a, and 375b. Additional Penalties were assessed against the bank's president ($2,500) and against each of the remaining directors ($1,000 each) for their failure to adopt and implement policies and procedures to prevent violations of law.

### 4. Bank with assets of $100 to $250 million

An examination of the bank revealed violations of 12 USC 84. These violations occurred despite the fact that the board had previously been instructed to adopt and implement policies and procedures designed to prevent such violations. The extensions of credit cited in violation of the bank's lending limit were also classified.

A Civil Money Penalty was assessed in the amount of $5,000 against the bank's president for his role in the extension of credit in violation of 12 USC 84. A Penalty of $9,000 was also assessed against the bank. In addition, supervisory letters were sent to each member of the bank's board of directors concerning the cited lending limit violation.

### 5. Bank with assets of $25 to $50 million

Despite prior warnings, violations of 12 USC 84, 371c, and 375b continued uncorrected within the bank. The director who was the major shareholder of the bank benefitted financially from these violations.

A Civil Money Penalty of $5,000 was assessed against the director who was the major shareholder of the bank. The amount recognized that the individual had benefitted from the violation to the detriment of the bank. Additional Penalties of $2,000 each were assessed against the remaining directors (except one director who joined the board after the violations had initially occurred) for their part in allowing the violations to occur and for their repeated failure to effect correction. The director who joined the board later was assessed $1,000 for his part in the board's failure to correct the violations of law in a prompt manner.

### 6. Bank with assets of $25 to $50 million

This bank had a history of violations of 12 USC 84. Although after each of the previous examinations the bank would correct the violations discovered, new violations continued to appear. In the most recent examination, a loan used to buy a business was guaranteed by the selling businessman who, at the time, was near his borrowing limit. The proceeds were received by the businessman, bringing the line over the limit.

A Civil Money Penalty of $2,000 was assessed against

each director and a bank vice president who was involved in the loan approval

7. Bank with assets of less than $25 million

An examination of the bank disclosed a repeat violation of 12 USC 371c. The bank purchased a certificate of deposit from an affiliate state-chartered bank which was in excess of the purchasing bank's capital limitations under Section 371c and was not lawfully collateralized. The bank had a history of disregard for federal banking laws.

A Civil Money Penalty of $5,000 was assessed against the bank. A penalty of $2,500 was assessed against the chairman of the board.

8. Bank with assets of less than $25 million

An examination of the bank disclosed a repeat violation of 12 USC 371c. The bank had purchased a certificate of deposit from an affiliate state-chartered bank which was in excess of the purchasing bank's capital limitations under Section 371c and was not lawfully collateralized. The bank had a history of disregard for federal banking laws.

A Civil Money Penalty of $5,000 was assessed against the bank. A penalty of $2,500 was assessed against the chairman of the board.

9. Bank with assets of $50 to $100 million

Five violations of 12 USC 84 were revealed during an examination along with several violations of 12 USC 375a and 375b. Four of the five 12 USC 84 violations had been cited in several reports of examination and two violations involved extensions of credit to the chairman of the board, two other directors, and their related interests. No losses had occurred in connection with the violations.

Civil Money Penalties of $3,500 each were assessed against the chairman of the board and two directors. The other five directors were assessed $2,500 each.

10. Bank with assets of less than $25 million

Several violations of 12 USC 84 and 12 USC 375a and 375b had been cited in four reports of examination of the bank. Despite discussions with the board of directors and management and letters from the District Office, no corrective measures had been taken and no preventative procedures were instituted. The extensions of credit resulting in the violations had been approved by the board of directors. There was no indication of personal benefit in connection with the 12 USC 84 violations, however, one violation of 12 USC 84 resulted in loss to the bank of approximately $50,000. Prior to consideration of the assessment of civil money penalties by the OCC, the board of directors consented and stipulated to the issuance of an Order to Cease and Desist which, among other things, required the board to reimburse the bank for all losses in connection with a violation of 12 USC 84.

Civil Money Penalties of $1,500 each were assessed against the seven members of the board.

11. Bank with assets of $25 to $50 million

An examination revealed significant deterioration in the overall condition of the bank, including numerous and repetitive violations of 12 USC 84, 375a, and 375b. These violations of law were primarily attributed to the lending practices of the bank's former president, who also had served as its chief lending officer. Many of the violations had been previously cited and corrective action had been promised by bank management. However, no corrective action had ever been undertaken and the bank's lending operations continued to be conducted in violation of 12 USC 84, 375a, and 375b. The cited extensions of credit resulted in significant losses to the bank.

A notice of assessment of a Civil Money Penalty was issued in the amount of $50,000 against the bank's former president based on violations of 12 USC 84, 375a, and 375b. The former president attempted to obtain a temporary restraining order enjoining the Comptroller from issuing such assessment; however, the district court refused to issue such an injunction and the case has been dismissed without prejudice. An administrative hearing is pending on the civil money penalty.

12. Bank with assets of less than $25 million

The two prior examinations had revealed numerous violations of law as well as a deteriorating condition of the bank. Insider lending violations and legal lending limit violations were cited as a result of the most recent examination. Several of the directors borrowed unsecured up to their individual limits without definite repayment plans or meeting credit criteria. These loans were not on substantially the same terms as noninsider borrowings. In addition, loans to four directors were either criticized or classified at the most recent examination. The three lending limit violations involved combining loans for purposes of the lending limit. Combining loans to seven individuals who were members of a joint venture created one violation of the legal lending limit. A second violation involved combining a borrower's standby letter of credit with a loan to a partnership of which he was a member and a loan for which he was a cosigner. Combining a loan to an

individual with the loan to a partnership of which he was a member, created the third violation.

Civil Money Penalties of $2,500 were assessed against each of the members of the board in light of the recurring nature of the legal lending limit violations and the fact that several insider loans were either criticized or classified at the last examination. Mitigating factors included the board's attempt to have classified or criticized insider loans returned to a performing status and the absence of loss to the bank.

### 13. Bank with assets of $25 to $50 million

The board of directors had approved a $100,000 overdraft line to the bank's majority shareholder and director. In addition to this unusually large and imprudent extension of credit, the bank regularly had allowed the majority shareholder to exceed the $100,000 limit by as much as $45,000, thus causing a violation of 12 USC 375b. The overdrafts were classified substandard and doubtful.

Civil Money Penalties of $15,000, against the majority shareholder, $5,000, against the bank's chief executive officer, and $2,500, against the other directors were assessed because of the insider related nature of the transaction, the amount of money involved, and the continuance of the practice in spite of promises to cease.

### 14. Bank with assets of $25 to $50 million

The bank had been operating under a Formal Agreement. After the Agreement was terminated, new ownership took over and the bank's condition deteriorated drastically. The bank had a large volume of out of area loans, a large increase in classified loans, an inadequate allowance for possible loan losses, and many credit exceptions. In addition, there were numerous violations of law, including violation of the bank's lending limit and violations on loans to insiders. Substantial losses had been incurred on the insider loans.

The bank consented to the issuance of an Order to Cease and Desist on all of the requested items except reimbursement for losses on the violations of law. The issue of directors' liability was pursued through separate cease and desist actions against each director, including the former president. Ultimately, the directors, other than the president, settled by reimbursing the bank $75,000. The president of the bank consented to a cease and desist order under which he agreed to reimburse the bank in the amount of $350,000.

Civil Money Penalties were issued against all of the directors in the amount of $1,000, and against the former president in the amount of $5,000.

## Administrative Actions

### 1. Bank with assets of $50 to $100 million

An examination revealed marked deterioration in the quality of the bank's loan portfolio and the associated negative effect on the bank's earnings performance and capital structure. Classified assets had increased four-fold since the previous examination. As a result of severe loan losses, a significant provision had to be made to the allowance for possible loan losses which, in turn, caused an operating loss for 1982. Although primary capital equalled slightly more than 7 percent of total assets, the volume of assets subject to criticism remaining on the bank's books rendered capital a supervisory concern.

An Order to Cease and Desist, to which the bank stipulated, required the bank to: (1) appoint a compliance committee; (2) correct all violations of law; (3) implement a program to reduce its level of criticized assets; (4) refrain from extending additional credit to any borrower whose extension of credit is criticized; (5) implement a program to improve collection efforts; (6) correct all credit and collateral documentation exceptions and refrain from granting any new extensions of credit without obtaining and analyzing sufficient credit information; (7) review and revise its lending policy; (8) implement an internal loan review system; (9) review and maintain an adequate allowance for possible loan losses; (10) maintain primary capital equal to 7 percent of total assets; (11) develop a 3-year capital program; (12) restrict payment of dividends; (13) prepare a budget for 1983, and each subsequent year the Order is in effect; (14) perform a management study and implement a management plan; (15) correct internal control deficiencies and adopt an internal audit program; (16) file amended reports of condition and income; and (17) evaluate its minimum security devices and procedures.

### 2. Bank with assets of less than $25 million

Liberal lending practices, lack of adherence to the bank's lending policy and a lack of management supervision over the lending functions had caused the level of classified assets to increase dramatically. Also, past-due loans had become extremely high. Management had been negligent and needed better organization to meet the bank's needs. The allowance for possible loan losses had not been regularly reviewed by the board and was deficient by $300,000. Numerous violations of law were found including violations of 12 USC 84, 371d and 375a. The bank's primary capital was considered inadequate.

An Order to Cease and Desist to which the bank stipulated, required the bank to: (1) correct all cited violations of law; (2) implement a written program to

reduce classified assets and stop making loans to borrowers whose credits are classified, (3) implement procedures to strengthen collection of delinquent loans; (4) implement procedures for identifying problem loans; (5) periodically review and maintain an adequate allowance for possible loan losses; (6) review and amend the bank's lending policy; (7) implement a policy governing the identification and accounting treatment of loans to be placed in a nonaccrual status; (8) evaluate the qualifications of the bank's president, (9) achieve and maintain a primary capital equal to 7 percent of total assets; (10) implement a written capital plan; (11) restrict the payment of dividends; (12) review and analyze the earning capacity of the bank, and implement a formal budget for this year and each year the Order continues in effect; (13) implement a written funds management policy; (14) appoint an internal auditor; and (15) correct internal control exceptions.

3. Bank with assets of $25 to $50 million

Poor loan quality, low earnings, and marginal capital accounts were the primary concerns. Classified assets were extremely high; approximately one-third of all classified assets were doubtful; and the allowance for possible loan losses was inadequate. Financial and collateral documentation exceptions were excessive. The poor condition of the loan portfolio had resulted in large losses with the bank's year-to-date losses equalling approximately $200,000.

A Formal Agreement was entered into with the bank which required the bank to: (1) correct all violations of law, (2) take prompt action to protect its interests with regard to criticized assets, (3) not extend additional credit to classified borrowers unless in the best interest of the bank and with prior written board approval, (4) correct financial and collateral documentation exceptions, (5) review the adequacy of the allowance for possible loan losses on a quarterly basis, (6) implement a funds management policy, (7) devise a capital plan, and (8) conduct an analysis and review of management.

4. Bank with assets of less than $25 million

A weak management team and inadequate board supervision resulted in continued deterioration in the overall condition of this small rural bank. Significant problems were centered in asset quality and earnings. A significant increase in classified assets (particularly loss and doubtful) since the previous two examinations and the requirement to add to the provision for possible loan losses severely impacted an already weak and erratic earnings stream. Loan problems were centered primarily on longstanding borrowers. Although a number were carryovers of loans granted under the liberal lending policies of prior management, several represented lending relationships recently established by the bank's new chief executive officer. One of those relationships resulted in a violation of 12 USC 84 when a large cashier's check was issued against uncollected funds. The chief executive officer also had attracted one large volatile deposit relationship which, in the past, had exceeded the bank's total footings but had established no formal policies addressing the investment of such funds.

A Formal Agreement prohibited the bank from extending credit in violation of 12 USC 84 and required correction of all consumer and other violations. The board was required to develop a written plan to reduce or strengthen classified assets and to refrain from extending further credit to any criticized borrower without approval from a majority of the directorate. A written analysis of management needs was required, with a copy of the study to be submitted to the regional administrator. In addition, the board was to: (1) revise and implement a new written lending policy with special attention to insider transactions; (2) take action to develop a problem loan identification function; (3) review the allowance for possible loan losses at least quarterly; (4) extend no further credit without obtaining and analyzing current and satisfactory credit information; (5) analyze earnings; (6) develop a profit plan and a plan to maintain adequate capital; (7) implement a new asset and liability management plan, with special attention to the handling of large, volatile deposit relationships and reports to assist the board in monitoring rate sensitivity; and (8) establish a policy addressing the issue of customers' drawing against uncollected funds. Finally, the board was directed to revise the bank's investment policy, correct internal control exceptions, and strengthen the bank's internal audit function.

5. Bank with assets of $25 to $50 million

Previously identified credit problems had increased and classified assets had become extremely high. Although loan portfolio quality had been adversely affected by depressed economic conditions in the agricultural sector, the major cause of the decline was poor loan administration; management was considered poor. Poor loan administration could be seen in the large volume of loans not supported by current credit information. The bank also had numerous violations of consumer law and two violations of 12 USC 84.

A Formal Agreement was entered into with the bank which required it to: (1) add two additional directors, (2) evaluate the present officer staff, (3) take prompt and continuing action to protect its interests with respect to criticized assets, (4) review the bank's loan portfolio to ensure the identification of problem loans,

(5) analyze the adequacy of the allowance for possible loan losses, (6) take all necessary steps to obtain and maintain current and satisfactory credit information, (7) review and revise existing lending policies, (8) correct all violations of law, (9) implement a consumer compliance program, (10) prepare detailed budgets, and (11) correct internal control and audit exceptions.

6. Bank with assets of $100 to $250 million

As a result of poor management and administration, loan quality, earnings, and capital had deteriorated. Although the bank had grown by 35 percent in two years, classified assets had more than doubled and delinquencies were high. Credit losses had nearly eliminated earnings, and primary capital was considered inadequate. The bank's holding company had begun taking steps to correct the deficiencies.

A Formal Agreement was entered into which required the bank to: (1) correct violations of law; (2) formulate a written outline of board duties and responsibilities; (3) perform a management study; (4) review and expand lending policies; (5) implement a written program to improve loan administration; (6) not renew loans upon which accrued interest was due; (7) implement a written program to remove criticisms on assets and cease making loans to borrowers whose credits are criticized; (8) obtain and maintain current and complete credit information and collateral documentation; (9) develop and adopt policies and procedures for handling Other Real Estate Owned; (10) review and maintain an adequate allowance for possible loan losses; (11) establish an asset/liability management program; (12) increase primary capital to at least 7 percent of total assets; (13) formulate a 3-year capital plan; (14) develop and implement a written plan to improve and sustain earnings, (15) declare no dividends except in compliance with applicable law, when in the best interest of the bank, and with prior notice to the regional administrator, (16) correct internal control deficiencies, (17) develop and implement a program to ensure that internal audit reports are reviewed and acted upon promptly; and (18) develop and adopt a consumer compliance program

7. Bank with assets of less than $25 million

The bank was suffering from heavy operating losses, poor quality loans and inordinately high credit losses as a result of weak management and board supervision. A Formal Agreement with the bank had proved ineffective Losses identified at the examination had reduced primary capital to a level inadequate to properly support the bank's operations. In addition, violations of 12 USC 84 were noted

An Order to Cease and Desist, to which the bank stipulated, required the bank to (1) correct lending limit violations and violations of law; (2) increase primary capital to at least 7 percent of total assets; (3) formulate a 3-year capital plan; (4) declare no dividends except in compliance with applicable law, when in the best interest of the bank, and with prior notice to the regional administrator; (5) employ a chief executive officer; (6) implement a written program to remove criticized assets and stop making loans to borrowers whose credits are criticized; (7) renew no loans upon which accrued interest is due; (8) review and amend lending policies; (9) amend procedures for handling delinquent loans; (10) maintain a system for identifying and monitoring problem loans; (11) develop and implement a plan to improve and sustain earnings; (12) establish a funds management policy; (13) employ a certified public accountant to perform an audit of the bank and render an opinion regarding the financial statements of the bank; and (14) review and revise all electronic data processing programs.

8. Bank with assets of more than $1 billion

This bank, which is the lead bank of a registered bank holding company, had a very high volume of classified assets, excessive past-due loans, poor credit files, and an inadequate loan review system. The documentation to support the bank's allowance for possible loan losses was inadequate, and the bank had several violations of a law which were corrected during the examination. The bank lacked a written funds management policy and capital levels were inadequate. In addition, the bank's earnings were very poor.

A Formal Agreement restricted the bank's ability to extend credit to criticized borrowers and required submission of written action plans on all criticized assets, along with quarterly reports of the bank's progress. The Agreement also required the bank to improve its policies regarding credit information and to obtain and maintain current and satisfactory credit information on all loans. The bank was required to review its policies with regard to problem or delinquent loans and to adopt a written problem loan identification system and ensure the independent review of the bank's loan portfolio. The Agreement required the bank to provide the regional administrator with a written study of its allowance for possible loan losses and to maintain the allowance at an adequate level. The bank was required to conduct a study of management and staffing needs in its lending and internal loan review functions and to develop and submit budgets and plans to improve the bank's profitability. In addition, the bank was to continue to submit quarterly financial statements including comparative statements The Agreement required the bank to adopt a written contingency plan for the performance of its data processing activities to con

conduct a study of its foreign operations and to adopt policies and procedures to assure the bank's compliance with applicable laws, rules, and regulations.

9. Bank with assets of more than $1 billion

The bank is the lead bank of a registered bank holding company. It had a large volume of classified assets and deficiencies in its internal controls, audit, and review systems. The bank suffered significant losses which complicated its funding strategies.

A Formal Agreement required the bank to create a compliance committee, consisting primarily of non-officer directors and chaired by a non-officer director. The bank was also required to submit quarterly written progress reports and was restricted in its ability to extend additional credit to any criticized borrower. The bank was required to: (1) review its corporate objectives and lending policies, particularly with regard to loans and loan participations; (2) ensure that its divisional procedures were consistent with the overall policy of the bank; (3) adopt a plan to strengthen its loan procedures and administration and submit a comprehensive strategic business plan to the regional administrator; and (4) submit current reports of its funding position and strategy to the regional administrator.

10. Bank with assets of $50 to $100 million

The examination disclosed poor asset quality with a very high level of classified assets. The poor asset quality had resulted from unsupervised lending outside of normal real estate lending. Adequate policies were in place. There was noncompliance with the policies. As a result of the high level of criticized assets, a provision of $300,000 was requested to bring the allowance for possible loan losses to an adequate level. Capital was strained, but the bank had received preliminary approval for an equity injection of $1 million, which would bring total capital to 7.1 percent of total assets.

A Formal Agreement required the bank to: (1) appoint a compliance committee; (2) correct the lending limit violation; (3) adopt and implement a written program to deal with criticized assets; (4) cease making loans to borrowers whose credits are criticized; (5) implement a program to improve and strengthen collection efforts; (6) obtain, analyze, and maintain current and satisfactory credit information and collateral documentation; (7) review and revise the lending policy; (8) conduct a study of current management and implement a management plan; (9) review and maintain the allowance for possible loan losses; (10) achieve a level of primary capital equal to at least 7 percent of total assets by a specified date and maintain that level thereafter; (11) develop a 3-year capital plan; (12) limit payment of dividends; (13) develop and implement an internal audit program; (14) develop and implement a written trading account policy; and (15) develop and implement a consumer compliance program.

11. Bank with assets of $25 to $50 million

A general examination revealed an extremely high level of classified assets. Other areas of concern were the large number of problem loans not identified by management, the large number of loans lacking sufficient credit information, the inadequacy of the lending staff, and the inadequacy of the allowance for possible loan losses.

A Memorandum of Understanding required the protection of the bank's position relative to criticized assets, a written program requiring reviews of the bank's loan portfolio, the obtaining of current credit information, a review of the adequacy of bank's lending staff, a revision of bank's written loan policy, a quarterly review of the adequacy of the allowance for possible loan losses, and the adoption of a written asset/liability management policy.

12. Bank with assets of less than $25 million

The examination reflected an increase in classified assets to 106 percent of gross capital funds from 33 percent at the October 1981 examination. A depressed agricultural economy and weak loan administration were the main reasons for the decline in asset quality. The bank's president has held that position since January 1983. His previous experience was in operational areas of the bank and consumer compliance. He appeared to lack the necessary loan experience and knowledge to resolve asset problems expeditiously and administer the overall operations of the bank. Lending policies needed to be revised to address nonaccrual loans, capitalization of interest and loan documentation. The allowance for possible loan losses was deemed adequate after a provision of $67,000 was made during the examination. Internal audit coverage was inadequate and no external audit was performed. Earnings were satisfactory and capital was adequate. Controls for consumer compliance and electronic data processing operations were satisfactory. Investments and funds management practices have been adequate, but funds management guidelines should be formalized.

A Formal Agreement was executed which required the bank to: (1) protect its interests with regard to criticized assets; (2) eliminate the grounds on which assets were criticized; (3) assure timely identification of problem loans; (4) obtain and maintain adequate

credit information, (5) revise the existing lending policy, (6) conduct quarterly reviews of the allowance for possible loan losses, (7) evaluate the sufficiency and competence of the lending staff, (8) review and revise the funds management policy; (9) ensure compliance with Banking Circular 115, providing a job description or other documentation delineating the services of the assistant vice president, (10) correct the audit deficiencies and electronic data processing exceptions; (11) correct all violations of law; and (12) provide monthly progress reports.

13. Bank with assets of $25 to $50 million

The report of examination revealed serious deterioration in the bank's overall condition. Classified assets were excessive. The bank had large volumes of other real estate owned and past-due and nonaccrual loans in addition to a concentration in speculative real estate construction loans. The bank did not have a reliable internal loan review function and was not complying with its loan policy. Problems in the lending area were primarily attributed to the speculative lending practices of a former lending officer. Large loan loss provisions and increased collection expenses had negatively impacted earnings. Additionally, the bank was cited for violations of 12 USC 84 and Regulation B. The funds management policy of the bank lacked guidelines regarding rate-sensitivity. The allowance for possible loan losses and capital were adequate; however, unfavorable earnings trends, a high dividend payout, and continued growth threatened capital adequacy.

A Formal Agreement required the board to correct each violation of law and ensure that all directors and employees are informed of the provisions of 12 USC 84, develop and implement a written program to eliminate the grounds on which each asset was criticized, review and expand the bank's funds management policy, develop and implement a written plan to improve and sustain the bank's earnings, and formulate a 3-year capital plan. The Agreement further required the bank to: make, renew, or extend no loans except in conformity with bank policy; extend no credit to any borrower whose extensions of credit have been criticized, unless failure to do so would be detrimental to the bank's interest; take steps to obtain current credit information on all loans lacking such information and correct each collateral exception; declare and pay no dividends unless in compliance with 12 USC 56 and 60; and submit written monthly progress reports to the regional administrator.

14. Bank with assets of $25 to $50 million

Weak supervision of the loan portfolio, together with depressed local economic conditions, resulted in an unacceptable level of classified assets. Specific deficiencies in loan supervision included the lack of a well defined organization structure and a corresponding lack of accountability, weak collection policies, excessive credit information exceptions and collateral documentation deficiencies. Furthermore, the bank was operating without the benefit of a formal funds management policy, a long range planning process or operational budgets. Heavy loan losses, the rising level of nonearning assets and narrowing interest margins have severely affected the bank's earnings performance over the past two years.

A Formal Agreement required the bank to correct violations of law and establish procedures to prevent further violations. The Agreement also required the board to conduct an analysis of the effectiveness of its supervision and the management needs of the bank and to forward its conclusions and recommendations to the regional administrator. In addition, the board was to: develop a written plan to reduce or strengthen each criticized asset and extend no further credit to any criticized borrower without approval from a majority of the directorate, establish policies and procedures to strengthen collection procedures and improve control over delinquencies, adopt and implement an effective problem loan identification system, and review the adequacy of the allowance for possible loan losses at least quarterly. Credit information and collateral documentation exceptions cited in the report of examination were to be corrected and future lending was restricted unless the bank obtained current credit information and properly perfected its collateral position. Furthermore, the board was to develop and implement an adequate funds management policy, review and analyze the bank's earnings capacity and develop a comprehensive operating budget, take actions to strengthen the internal/external audit coverage, and eliminate or substantially mitigate all internal control exceptions. Quarterly reports to the regional administrator on the bank's compliance with the Agreement was required.

15. Bank with assets of $25 to $50 million

The two major problems confronting the bank were a high volume of classified assets and poor earnings. The most recent examination had revealed that classified assets had increased 250 percent. Poor credit administration, as seen in the significant amount of loans not supported by current credit information, was the primary cause of the increase. The bank had poor earnings, primarily because of low interest margins and high non-interest expense. The large amount of low quality loans necessitated provision to the allowance for possible loan losses which adversely affected earnings. Asset growth had strained capital, which

was further affected by high dividends and historically low retained earnings.

A Formal Agreement was entered into with the bank which required it to: (1) correct all violations of law, (2) take prompt action to protect its interest with respect to criticized assets, (3) extend no additional monies to classified borrowers, unless in the best interest of the bank and with prior written board approval, (4) obtain satisfactory credit and collateral documentation, (5) review the adequacy of the allowance for possible loan losses on a quarterly basis, (6) prepare a capital and dividend plan, (7) develop an earnings program; (8) revise the loan policy to address renewals, and the circumstances under which loans are to be placed in non-accrual status; and (9) correct electronic data processing deficiencies.

16. Bank with assets of less than $25 million

Classified assets became excessive because of inadequate credit administration and poor agricultural conditions in the bank's trade area. The county in which the bank is located was declared a disaster area. Investment practices at the examination were criticized and funds management practices needed to be formalized. Earnings had been good and capital was considered adequate, but high classified assets was a serious problem. Internal controls and audit deficiencies existed and operating policies needed revision.

A Formal Agreement required: (1) the protection of the bank's position relative to criticized assets and implementation of a program to eliminate the basis for criticism, (2) review of the loan portfolio to ensure timely identification of problem loans; (3) a program to obtain satisfactory credit information and collateral documentation; (4) the review and revision of the bank's lending policy; (5) quarterly review of the allowance for possible loan losses; (6) evaluation of sufficiency and competency of the bank's officer staff; (7) correction of lending limit violations, as well as all other violations of law, (8) revision of the investment policy, (9) adoption and implementation of a written liquidity and asset/liability management policy; (10) correction of internal control and audit deficiencies; and (11) submission of monthly progress reports.

17. Bank with assets of less than $25 million

Asset quality was unsatisfactory with excessive classified assets. The bank's allowance for possible loan losses was inadequate which necessitated a special provision to the allowance. The problems facing agriculture were a contributing factor to the decline in asset quality, but poor loan administration was the major problem. Violations of 12 USC 84 were noted and internal control and audit deficiencies existed. Earnings performance and capital support were deemed to be satisfactory.

A Formal Agreement required the bank to: (1) correct the violations of 12 USC 84, (2) protect the bank's position relative to classified assets, (3) eliminate the basis upon which each asset has been classified, (4) establish a program to ensure the timely identification of problem loans; (5) adopt a written program to improve collection efforts; (6) obtain and analyze satisfactory credit information; (7) make an immediate provision to the allowance for possible loan losses of $125,000, and conduct quarterly reviews of the allowance for possible loan losses; (8) evaluate the sufficiency and competency of the officer staff; (9) analyze present and future capital needs and formulate a written capital program; (10) correct internal control and electronic data processing deficiencies; and (11) adopt a written program designed to ensure adequate audit coverage.

18. Bank with assets of less than $25 million

Under new ownership, the asset condition of the bank deteriorated rapidly due to improper administration of the loan portfolio. As a result the bank accumulated an excessive volume of criticized assets. Additionally, the bank's overall compliance with national banking laws was poor, with violations of 12 USC 84 and 375 noted. Poor funds management practices caused periodic liquidity problems.

A Formal Agreement was executed which required the bank to: (1) correct violations of law; (2) develop a program to eliminate criticized assets; (3) submit periodic reports on the status of criticized assets; (4) develop a program to address delinquent loans and credit and collateral exceptions; (5) review and analyze the management needs of the bank, with particular attention to the areas of lending and operations; (6) review and revise the bank's loan policy; and (7) adopt and implement a funds management policy.

19. Bank with assets of less than $25 million

Problems facing the bank were excessive classified loans, high past due loans, poor earnings, and inadequate capital. The bank's earnings problems were compounded by a large volume of fixed-rate assets.

A Formal Agreement required the bank to: (1) take prompt action to protect its interests with respect to criticized assets; (2) extend no additional credit to classified borrowers unless in the best interest of the bank, and then only with prior written board approval, (3) obtain and maintain current and satisfactory credit information, (4) provide for the review of the bank's

loan portfolio to identify problem loans, (5) review the adequacy of the allowance for possible loan losses; (6) correct violations of law; (7) prepare an analysis of the bank's capital needs; (8) adopt a nonaccrual policy; and (9) correct internal control deficiencies

20. Bank with assets of $25 to $50 million

The bank's asset quality had declined dramatically since the previous examination, primarily because of out-of-territory loans associated with a failed bank, poor loan administration, and inadequate supervision of the lending function. Collateral documentation exceptions were high, as were classified assets which included several insider-related loans and delinquent loans. The internally prepared problem loan list had identified only one third of the loans classified. Two violations of 12 USC 84 and violations of 12 USC 375a and 375b, and 15 USC 1681 were revealed during the examination. Capital was inadequate to support future operations because of high loan losses. The bank lacked written policies to govern the investment and asset and liability management areas. Internal and external audit procedures were inadequate. Management was ineffective and lines of authority, reporting responsibilities, and duties and responsibilities of management were unclear.

An Order to Cease and Desist to which the board of directors stipulated and consented required the board to select a compliance committee comprised of directors who were not also officers or principal shareholders. The Order required the correction of violations of 12 USC 84, 375a and 375b and 15 USC 1681; the establishment of procedures to prevent future violations; and the reimbursement by the board to the bank of losses incurred in connection with one violation of 12 USC 84. The compliance committee was required to conduct a review of bank management and to submit a report of findings and recommendations to the board. The bank was required to achieve a specific level of primary capital and the board was prohibited from declaring or paying dividends without prior written approval of the appropriate Deputy Comptroller. The Order required the board to revise the bank's lending policy to include periodic review of adherence to the policy, and to establish a policy to control out-of-territory extensions of credit. A program addressing each criticized asset was also required.

21. Bank with assets of $25 to $50 million

The bank's deteriorated condition was directly attributable to inadequate supervision by the board and management, marginal staffing, and rapid growth. Major areas of concern were deteriorating asset quality, numerous violations of law, and inadequate capital.

A Formal Agreement requires the correction of all violations of law. The board has agreed to implement programs to eliminate assets from criticized status, maintain sufficient credit and collateral documentation, and maintain an adequate allowance for possible loan losses. A revised lending policy and instigation of a loan review function was requested. In addition, the Agreement requested that the bank maintain primary capital equal to at least 7 percent of total assets and pay no dividends without the approval of the appropriate Deputy Comptroller.

A written internal audit program was requested with internal control deficiencies to be corrected and a consumer compliance program submitted for review. The board was also to develop a program to identify and correct deficiencies in bank management and staffing

22. Bank with assets of less than $25 million

Since its conversion to a national charter, the bank's asset condition had deteriorated because of economic conditions and inadequate loan supervision. The bank's SP ratio rose to 95 percent. In addition, the bank had poor internal controls and incomplete written policies.

A Memorandum of Understanding was executed with the bank which required it to: develop a plan to strengthen or eliminate criticized assets, submit periodic reports on the status of criticized assets, revise and implement a written loan policy, correct internal control exceptions by written procedures, develop and adopt written funds management and investment policies, and correct violations of law.

23. Banks with assets of $25 to $50 million

Rapid growth with insufficient staffing in the lending area resulted in deterioration of the bank's asset condition. Classified assets were high and loan documentation exceptions were excessive. Three violations of the bank's legal lending limit were disclosed. Other areas of the bank were acceptable. Losses were minimal and earnings remained strong. Capital was adequate and well within Zone I

A Formal Agreement required the board to review written policies and management in the lending areas. Monthly reporting was required on all criticized assets

24. Bank with assets of $25 to $50 million

Poor loan quality resulting from weak management and inadequate board supervision were addressed in a Formal Agreement with the bank. A subsequent examination, however, showed virtually no compli-

ance with the Agreement and an almost total failure by the bank's president and board to exercise proper supervision. The examination revealed classified assets had risen to an inordinate level. Management continued to be a major problem. Violations of the bank's lending limit were also cited in the examination.

An Order to Cease and Desist, to which the bank stipulated, required the bank to: (1) not extend credit in violation of 12 USC 84, (2) correct all other violations of law and implement procedures to prevent recurrence of violations, (3) evaluate bank management; (4) implement a plan to augment and strengthen management and prepare written job descriptions for each bank officer, (5) hire a senior lending officer; (6) review and revise the bank's lending policy; (7) review and revise the bank's loan administration program; (8) adopt procedures to properly place loans on nonaccrual status, (9) improve the bank's internal loan review program, (10) establish a trade area definition, and grant no loans in contravention thereof; (11) adopt and implement a program to eliminate criticized assets and not extend additional credit to criticized borrowers; (12) review and maintain an adequate allowance for possible loan losses; (13) formulate a funds management policy; (14) maintain minimum primary capital equal to 7 percent of total assets and develop a 3-year capital plan; and (15) restrict payments of dividends.

25. Bank with assets of $50 to $100 million

The major problems confronting this bank were a high volume of criticized assets and poor earnings. The most recent examination revealed an increase in criticized assets. Historically earnings had been poor because of low net interest margins and high loan loss provisions.

A Formal Agreement entered into with the bank required it to take prompt action to protect its interests with respect to criticized assets and prohibited further extensions of credit to criticized borrowers unless failure to do so would be substantially detrimental to the interests of the bank and unless the loan was approved by the board or a committee of the board. The Agreement also required the bank to conduct quarterly reviews of the allowance for possible loan losses, adopt written procedures to ensure compliance with the bank's policies on delinquent loans, take steps necessary to increase capital to 7 percent of total assets, formulate a program designed to improve earnings, and correct all violations of law.

26. Bank with assets of $25 to $50 million

Substantial deterioration in asset quality was attributed to the economy, however, poor loan selection by a former officer and a lack of collection efforts aggravated those problems. Classified assets had risen sharply. The allowance for possible loan losses was totally inadequate. Overdue loans equalled 10 percent of gross loans. The bank's investment in banking premises exceeded the limits prescribed by 12 USC 371d and credit exceptions were significant. A number of loans had not been placed in nonaccrual status in conflict with the instructions for preparation of reports of condition and income. Although capital was adequate, a capital plan and, in particular, a dividend policy were needed to ensure continued capital adequacy in light of the current asset problems. The consumer examination reflected a good effort to comply with consumer regulation and no violations were cited.

A Formal Agreement was entered into which directed the board to develop and implement a written program to improve loan administration. The bank was directed not to make, renew, or recast loans unless in conformity with its loan policy. The board was directed to adopt and implement a program for elimination of the grounds upon which each asset has been criticized. Further, the bank was ordered not to loan additional money, renew, recast, or extend loans or other credit to any borrower whose loans were criticized in the report of examination, unless failure to do so would be substantially detrimental to the best interest of the bank. The bank was required to take all reasonable and necessary steps to obtain current and satisfactory credit information and to correct each collateral exception listed in the report of examination. The bank was also instructed to review the allowance for possible loan losses at least quarterly and make provisions as necessary. The board was instructed to prepare a 3-year capital plan designed to maintain capital at an adequate level. Finally, the board was instructed to cause the bank to submit written monthly reports to the regional administrator detailing actions taken to correct deficiencies cited in the examination report.

27. Bank with assets of less than $25 million

A weak management team, poor lending practices, and a depressed local economy contributed to excessive classified assets. Specific deficiencies in the lending area included no effective problem loan identification system, liberal use of renewals and extensions, improper evaluation of repayment capacity, weak collection practices, and credit information deficiencies. Furthermore, the bank was operating without a funds management policy, an operating budget, or a long-range planning process. Reports to the directorate were inaccurate, oral, and inadequately documented. Numerous deficiencies relating to the bank's electronic data processing function were also noted

A Formal Agreement was entered into with the bank which required the correction of violations of law and establishment of procedures to prevent their recurrence. The board was required to analyze the effectiveness of its supervision and the management needs of the bank and forward its conclusions and recommendations to the appropriate Deputy Comptroller. The board was to develop a written plan to reduce/strengthen each criticized asset and was prohibited from extending further credit to any criticized borrower without approval of a majority of the directorate. In addition, the board was to develop new written policies and procedures to supervise and control the level of delinquent loans, adopt and implement an effective problem loan identification system, and review the adequacy of the allowance for possible loan losses at least quarterly. Credit information exceptions cited in the report of examination were to be corrected and future lending was restricted unless the bank obtained and analyzed current and satisfactory financial information. The reports provided to the board for their review at regular and committee meetings were to be expanded and formalized. Formal minutes were required for all regular and committee meetings. Further, the board was to adopt a formal funds management policy, develop comprehensive operating budgets, and take action to strengthen the internal/external audit function. Internal control deficiencies noted in the investments area were to be corrected as were the numerous deficiencies noted in the electronic data processing area. Quarterly reports to the Deputy Comptroller on the bank's compliance with the Agreement were required.

28. Bank with assets of less than $25 million

Lax board and management supervision, inexperienced middle management, and depressed local economic conditions contributed to the bank's deterioration. The bank suffered from a high level of classified assets and a general disregard for prudent lending practices, as evidenced by an inordinate number of documentation exceptions. The level of classified loans necessitated a substantial provision to the allowance for possible loan losses. That provision, coupled with ineffective funds management, resulted in negligible earnings for 1982. Numerous violations of both commercial and consumer laws, rules, and regulations were noted.

A Formal Agreement required correction of the cited violations and implementation of procedures to prevent their recurrence. The Agreement also required the bank to conduct a management study and to implement written programs to remove all assets from criticized status, improve collection efforts and reduce delinquent loans, maintain an adequate allowance for possible loan losses, and ensure compliance with consumer laws, rules, and regulations. Pursuant to this Agreement, written policies will be formulated for all major areas of the bank. Action was required to correct all credit and collateral deficiencies.

29. Bank with assets of less than $25 million

The bank suffered from lax and unsophisticated management and inadequate board supervision. Many instances of noncompliance with bank policy, violations of law, and imprudent lendng practices were noted. Large loan losses resulted in a net loss position and capital was inadequate. Loan documentation exceptions were excessive and lax collateral inspections resulted in large loan losses through borrower fraud (collateral sold out of trust).

A Formal Agreement was entered into with the bank to correct deficiencies. The Agreement required: (1) correction of all violations of law, rule, and regulation, (2) director reimbursement for losses stemming from the violations; (3) implementation of a program to reduce criticized assets; (4) restrictions on credit to criticized borrowers; (5) elimination of credit and collateral exceptions; (6) revision of the bank's lending policy and procedures; (7) establishment of an internal loan review process, including the associated reporting requirements; (8) improvement of collection procedures; (9) review and analysis of the allowance for possible loan losses; (10) development of a capital program and maintenance of an adequate capital base; (11) development of a funds management policy and procedures; (12) implementation of budgeting techniques and development of an earnings program; (13) implementation of a management study and analysis; (14) improvement of internal audit procedures and policy; (15) correction of internal control deficiencies; (16) development of adequate investment policy and procedures; (17) correction of consumer compliance deficiencies; and (18) correction of deficiencies associated with a bank insider's insurance agency activities.

30. Bank with assets of more than $1 billion

An examination revealed asset quality deterioration due to inadequate loan administration and supervision as well as an economic decline in certain industries. The loan portfolio contained concentrations of credit in the oil, gas, and real estate construction industries. The depth, training, and supervision of mid-level management was deficient. The bank's written lending policy was vague and was variously understood by the lending staff, which resulted in overlending and inconsistent credit structuring. A high percentage of loans lacked sufficient credit information and collateral documentation. The bank did not have an effective independent loan review system. Although capital was

sufficient earnings were severely affected by the poor quality of the loan portfolio, and liquidity was a major problem. The bank did not have a formal securities trading account policy and minor violations of Municipal Securities Board rules were revealed, as well as several violations of 12 USC 375a and 375b. Inadequate management information systems were upgraded during the examination and the allowance for possible loan losses was replenished to an adequate level immediately following the examination.

A Formal Agreement designed to address the bank's problems, was signed by the board of directors. Due to the volatile nature of the situation, the Agreement provided that it was enforceable to the same extent as an outstanding and final order, pursuant to 12 USC 1818(b), (i), and (k). The Agreement required the board to revise the bank's lending policy and credit administration procedures and to monitor the bank's implementation and adherence to the revised policy and procedures. An independent internal loan review system and monthly loan review reports to the board were required. Establishment of a program designed to strengthen or collect criticized assets in excess of a specified amount was required and the bank was required to obtain independent appraisals for oil and gas properties on which the bank holds a security interest, lien, or other right as collateral. An evaluation of the bank's internal appraisal system was required in conjunction with a thorough review of the bank's appraisal policies. A committee of the board was required to conduct an evaluation of management and staffing needs in each major department of the bank. The board was required to take action to alleviate short term funding deficiencies and thereafter to gradually reduce the bank's dependence on volatile funding sources. Adoption of a written securities trading account policy, correction of internal control deficiencies and correction of violations of law were also required. Adoption of a strategic business plan identifying projects and goals for the bank's operations was required.

### 31. Bank with assets of $250 to $500 million

A recent examination indicated a lack of supervision by management. Classified assets and past-due loans were high. Loans had been collateralized by in-ground mineral values not based on independent engineering reports. There was poor collateral documentation and a need to improve collection efforts. Credit information was lacking. Funds management policies and operations were insufficient and inept. The bank had depended heavily on brokered certificates of deposit to fund its rapid growth. Borrowings from the Federal Reserve Bank were substantial. Loan losses and charges to the allowance for possible loan losses had depleted earnings and weakened the bank's capital structure. Numerous violations of law, including a violation of 12 USC 84, were found. The bank needed to revise and update its lending policy and to establish an independent loan review system. Because of the condition of the bank's records, a special examination by an independent certified public accountant was needed. Finally, the bank needed to undertake capital planning aimed at maintaining its capital funds at a good level.

A Formal Agreement required a study of the bank's management to remedy deficiencies. A written program was to be devised addressing the underlying problems in the criticized assets and designed to eliminate assets from the criticized status. Collateral documentation deficiencies were to be corrected and collection efforts strengthened. Funds management policies were to be reviewed and revised. The allowance for possible loan losses was to be periodically reviewed and restored to an adequate amount. All violations of law were to be corrected, with particular attention to the violation of 12 USC 84. Current and satisfactory credit information was to be obtained and a written program devised to strengthen collection efforts. Independent engineering reports were required for extensions of credit based primarily on mineral values. The loan policy was to be reviewed and revised and an independent loan review system established. A special examination was to be undertaken by an independent certified public accountant. A capital plan covering the next 5 years was to be devised, and minimum equity capital was to be maintained. Because of the bank's capital problems dividend restrictions were imposed.

### 32. Bank with assets of $50 to $100 million

Poor economic conditions in the bank's agriculturally oriented trade area coupled with credit administration weaknesses resulted in an excessive level of classified assets, an inadequate allowance for possible loan losses, significantly reduced earnings, and a strained capital position. The bank had a history of 12 USC 84 violations. The bank lacked a funds management policy, and its net interest margin was adversely affected during the latter part of 1982.

A Formal Agreement entered into with the bank required the protection of the bank's position relative to classified assets; the implementation of a written program to eliminate the basis of criticism for each asset of $40,000 or more; revision of the bank's existing lending policy; quarterly reviews of the allowance for possible loan losses, the obtaining of satisfactory credit information and collateral documentation, correction of all violations of law, rule, or regulation, preparation of an analysis of present and future equity capital needs and the formulation of a written program

designed to maintain adequate capital, revision of the bank's funds management policy, and submission of monthly progress reports

### 33. Bank with assets of $500 million to $1 billion

The quality of the bank's assets had deteriorated, and classified assets were high. In addition, losses exceeded the balance of the allowance for possible loan losses, and the provision necessary to return the allowance to an adequate level eliminated the bank's year-to-date earnings and guaranteed an unimpressive fiscal performance. Primary capital also had been reduced as a result of the examination losses and credit and collateral exceptions were extremely high.

A Formal Agreement was entered into with the bank which required it to: (1) appoint a compliance committee; (2) correct all violations of law and adopt policies and procedures to prevent future violations; (3) adopt a written conflict of interest policy; (4) adopt policies and procedures to eliminate criticized assets; (5) refrain from extending additional credit to any borrower whose extension of credit is criticized; (6) improve and strengthen collection efforts; (7) correct credit collateral documentation exceptions; (8) develop guidelines governing extensions of credit to borrowers located in foreign countries; (9) provide for a monthly internal loan review; (10) eliminate, and prevent the creation of, undue concentrations of credit; (11) review and maintain an adequate allowance for possible loan losses; (12) achieve and maintain primary capital equal to 7 percent of total assets; (13) prepare a budget, balance sheet, and income/expense statement; (14) review written internal audit procedures and internal audit staffing; (15) correct internal control deficiencies; and (16) correct all trust violations.

### 34. Bank with assets of $50 to $100 million

Asset quality was poor. Classified assets had increased as a result of poor lending and loan administration practices. Losses identified during the examination had depleted the allowance for possible loan losses. The provision required to restore the allowance to an adequate level produced a loss for 1982 and reduced primary capital to an inadequate level. Funds management practices were unsophisticated. Numerous violations of law and regulation were cited in the report.

A Formal Agreement was entered into which required the bank to: (1) appoint a compliance committee; (2) execute a study of its organization and management, (3) achieve and maintain a ratio of primary capital to total assets of at least 7 percent, (4) develop a capital program, (5) restrict payment of dividends, (6) prepare a program to improve and sustain earnings, (7) reduce criticized assets, (8) [illegible] criticized borrowers, (9) review and revise its lending policy, (10) implement an internal loan review system, (11) improve and strengthen collection efforts, (12) correct credit and collateral documentation exceptions; (13) maintain an adequate allowance for possible loan losses and review it periodically, (14) implement an asset/liability management program, (15) correct all violations of law, rule, and regulation, (16) correct internal control deficiencies, and (17) submit monthly reports to the appropriate Deputy Comptroller.

### 35. Bank with assets of $50 to $100 million

The bank's primary problem was asset quality deterioration. A concentration in real estate development and construction loans made up most of the classified assets. The board had not established specific policies and procedures addressing real estate development financing and concentrations of credit. Increased loan losses and non-earning assets impaired the bank's earnings. Primary capital was only marginally adequate in view of the depressed earnings and liberal dividend payments required to service the parent holding company's debt.

A Memorandum of Understanding entered into with the bank required the board of directors to develop written plans to collect/strengthen each criticized asset. Progress reports on each criticized asset were to be submitted to the appropriate Deputy Comptroller quarterly. Additional advances and renewals to criticized borrowers were prohibited unless the board certified that such action was in the best interest of the bank. The bank's procedures for ensuring the adequacy of the allowance for possible loan losses were to be revised to provide for reviews at least quarterly. The board was also to review and revise the bank's lending policy and, specifically, to address construction loans and real estate financing, concentrations of credit, and loan renewal guidelines. An analysis of the bank's management needs, especially in the lending area, was also required, with a written report detailing the scope and findings submitted to the Deputy Comptroller. The directorate was also to analyze the bank's earnings capacity, adopt a policy statement regarding dividends, and develop a written plan to maintain an adequate capital base. A copy of each of those was to be submitted to the Deputy Comptroller. Finally, quarterly reports to the Deputy Comptroller on the bank's compliance with the Memorandum of Understanding were required.

### 36. Bank with assets of $25 to $50 million

A specialized examination of the bank revealed a tripling in classified assets and a large volume of

delinquent loans commonly attributed to liberal lending procedures and inadequate supervision by management. Although economic factors contributed to the deterioration, undue reliance on collateral values, failure to properly evaluate repayment capacity, liberal advances and loan structures, poorly conceived renewal decisions, and the absence of adequate credit documentation were responsible for the condition of the loan portfolio.

A Formal Agreement required the bank to (1) correct all violations of law, (2) protect the bank's position relative to classified assets, (3) restrict additional credit and renewals of credit to criticized borrowers; (4) adopt and implement formal written procedures to identify and monitor criticized loans, (5) review procedures to control delinquent loans and strengthen the bank's collection procedures; (6) analyze the adequacy of the allowance for possible loan losses quarterly and adjust it to an adequate level; (7) correct financial and collateral documentation exceptions and report, in detail, the results of action taken; (8) revise the bank's written lending policy to address examination criticisms and review adherence to the policy semiannually; (9) submit monthly loan delinquency reports; (10) ensure proper procedures are followed in obtaining, analyzing, and perfecting collateral documentation on loans supported by collateral; (11) adopt and implement a written funds management policy and submit a quarterly report on the bank's capacity to hedge interest rates; (12) review, analyze, and report on the bank's earning capacity, and (13) adopt, implement, and report on a written profit program, including improvements in any adverse imbalance of rate-sensitive assets and rate-sensitive liabilities, interest margins, pricing of business transactions and services, and consideration of personnel and occupancy expenses. Based on this program, the bank was further required to develop a detailed annual budget and submit quarterly earnings reports. In addition, the Agreement required the bank to develop and implement a written capital plan and submit it to the Office of the Comptroller of the Currency for review, refrain from extending credit without obtaining satisfactory credit information and collateral documentation, and to conduct an in-depth review of the effectiveness of supervision and the management needs of the bank, eliminating or substantially mitigating the internal control and operational deficiencies noted in the examination.

### 37. Bank with assets of $50 to $100 million

Traditionally oriented toward consumer credit, the bank embarked on a program of purchasing direct finance leases from a leasing company to which the bank paid management fees of over $757,000. Led by management with no experience or expertise in the commercial leasing area and lacking written policies and adequate supervision and control by the board of directors, the bank's loan portfolio rapidly deteriorated. The purchased leases represented almost all of the classified assets and included $2.3 million in losses arising from a violation of 12 USC 84. Many of the purchased leases were out-of-territory and lacked sufficient credit verification, information, and collateral documentation. The losses depleted the allowance for possible loan losses, although capital remained marginally adequate. The examination also revealed heavy depreciation in the bank's investment portfolio, inadequate audit procedures, and numerous internal control deficiencies. The bank's president resigned during the examination and several members of the board subsequently resigned. The bank ceased all leasing activity.

A Formal Agreement required the board to appoint an independent outside counsel to determine whether the bank had cause for action against any or all current or former directors and officers of the bank in connection with the violation of 12 USC 84 and to evaluate and make recommendations with respect to the management fees, contract terms, quality, volume, and necessity of any services provided to the bank by the leasing corporation. The board was required to forward a copy of the report of independent counsel to the appropriate Deputy Comptroller and to notify that Deputy Comptroller of any actions taken based on the report. Correction of violations of law, establishment of a problem loan review system, and institution of a program to strengthen collection efforts were required. The bank was prohibited from purchasing finance leases or engaging in leasing activity without a detailed written leasing policy requiring written approval of the board prior to the purchase of any lease, prohibiting out-of-territory lease purchase activity, and establishing procedures to monitor adherence to the policy. The board was required to select and appoint a commercial loan administrator with experience in lease financing, and to conduct a review of current management. The Agreement further required the bank to correct internal control deficiencies, to develop a formal audit program, and to develop a capital program.

### 38. Bank with assets of $25 to $50 million

The rapid expansion policies of a new principal shareholder and chairman of the board, accompanied by inadequate board supervision, insufficient credit information and collateral documentation, and other poor lending practices, had caused a sudden and severe deterioration in the condition of the bank since the previous examination. The expansion of the loan portfolio was funded by large certificates of deposit and other rate-sensitive liabilities. Classified assets had increased significantly, and 80 percent of them were

participations purchased from the bank's affiliate without adequate collateral documentation. Furthermore, 25 percent of classified loans were insider-related. Several loans to insiders were in violation of 12 USC 375b because they were not pre-approved by the board with the interested directors abstaining. The volume of delinquent loans was large and liquidity was strained by heavy reliance on purchased funds. The allowance for possible loan losses was inadequate, but was replenished during the examination. The bank's capital was considered adequate. Immediately subsequent to the examination, the chairman of the board resigned and ownership of the bank changed.

A Formal Agreement required the board to adopt and adhere to written procedures concerning extensions of credit to bank insiders and their related interests and to correct all violations of 12 USC 375b. The Agreement also required the board to revise the bank's lending policies to include guidelines on purchasing, assuming, or acquiring loans or participations and prohibited the bank from purchasing or acquiring any loan participation unless specific credit standards were satisfied. The Agreement required the board to establish an effective problem loan identification system, conduct quarterly reviews of the adequacy of the bank's allowance for possible loan losses, and make appropriate adjustment in the allowance.

### 39. Bank with assets of $50 to $100 million

Ineffective management, poor credit risk selection, indiscriminate renewal practices, inadequate and incomplete loan documentation, and lack of a problem loan identification system resulted in a four-fold increase in classified assets since the previous examination. Funds management practices were poor, lacked formal policies, and resulted in an extremely liability-sensitive position. Internal controls were deficient and possibly contributed to a $325,000 loss of bank funds through the official checks account. The bank had no budget and the board of directors received insufficient information and reports from management. Violations of law in the consumer area were cited. Although management and board practices were not considered self-serving, bank practices and operations were out-dated and ineffective and supervision was lax.

An Order to Cease and Desist was stipulated to by the board. The Order required the board to implement a detailed program to correct deficiencies in management and to provide a clearly defined framework for bank operations. Establishment of a problem loan identification system including detailed monthly loan review reports to the board was required. The Order required: (1) adoption of a plan to reduce classified assets; (2) asset and liability management guidelines, (3) a formal budget including income and expense items and assumptions upon which the budget was based; (4) a capital program; (5) a revised lending policy; (6) correction of consumer law violations; (7) review of the bank's consumer compliance program; and (8) correction of internal control deficiencies.

### 40. Bank with assets of less than $25 million

The bank had been operating under a Formal Agreement since 1979. The Agreement was amended in 1981 to include an article addressing specific violations of law. The most recent examination disclosed high classified assets, excessive past due loans, heavy loan losses, and a large number of credit exceptions. A number of violations of law were also noted, including 12 USC 29, 73, and 84 and 12 CFR 215.

An Order to Cease and Desist was issued to which the bank consented. The Order required the bank to: (1) appoint a compliance committee to monitor and ensure adherence to the provisions of the Order; (2) immediately correct all violations of law and regulation, and adopt procedures to prevent their recurrence; (3) take immediate action to comply with the requirements of the Employee Retirement Income Security Act; (4) adopt a written conflict of interest policy; (5) obtain and maintain current satisfactory credit information and collateral documentation, and cease making loans without such documentation; (6) adopt a written program to improve collection efforts and reduce delinquent loans; (7) develop a program to eliminate criticized assets; (8) establish an experienced, independent loan review function; (9) conduct quarterly reviews of the allowance for possible loan losses, and maintain the allowance at an adequate level; (10) adopt written procedures to reconcile all general ledger accounts to subsidiary records on a regular basis; and (11) adopt a budget detailing all proposed balance sheet, income, and expense items.

### 41. Bank with assets of less than $25 million

A defalcation by the chief executive officer, through a series of fictitious loans, rendered the bank virtually insolvent. Primary capital was reduced to less than 1 percent of total assets. When the defalcation was uncovered, the chief executive officer resigned, leaving the bank with no one capable of handling the bank's daily operations.

A Notice of Charges was issued in conjunction with a Temporary Order to Cease and Desist. The Temporary Order to Cease and Desist required the immediate injection of equity capital.

An Order to Cease and Desist was subsequently issued to which the bank consented. The Order re-

[illegible] violations of law were cited, including one violation of 12 USC 84.

A Formal Agreement required the bank to: (1) appoint a compliance committee to monitor and ensure adherence to the provisions of the Agreement; (2) immediately correct all violations of law, especially 12 USC 84, and regulation, and adopt procedures to prevent their recurrence; (3) develop a program to eliminate the grounds of criticism of each asset in excess of $80,000; (4) implement a written program designed to improve and strengthen collection efforts; (5) acquire and maintain current, satisfactory credit information and collateral documentation, and cease making loans without such documentation; (6) review and revise the bank's written lending policy; (7) establish an internal loan review system to provide for a monthly review of the bank's loan portfolio; (8) conduct monthly reviews of the adequacy of the bank's allowance for possible loan losses; (9) adopt a written liquidity, asset, and liability management policy; (10) develop and implement a written audit program; (11) correct all matters subject to criticism in the trust examination report and ensure the bank's compliance with 12 CFR 9.7; and (12) submit a written program to correct all matters subject to criticism in the electronic data processing report.

### 44. Bank with assets of $50 to $100 million

The bank suffered from a poor quality loan portfolio with an inordinate volume of classified assets. This deterioration was primarily attributable to poor lending philosophies, poor loan administration, and poor economic conditions. The deteriorated loan portfolio caused low earnings and a marginal capital position. In addition, the current lending staff did not have the ability to deal with the problems caused by the bank's poor loan portfolio. Several violations of law were also noted.

A Formal Agreement required the bank to: (1) review the sufficiency and competency of the present managerial staff; (2) adopt a program to eliminate the basis of criticism of assets and cease making loans to borrowers with criticized loans in excess of $100,000; (3) revise its written loan policy and implement operating procedures to ensure compliance with the policy; (4) review the bank's internal loan review function; (5) develop written procedures to identify, review, and collect delinquent loans; (6) prepare and submit a written program to improve and sustain the bank's earnings, including yearly budgets; (7) restrict payment of dividends; (8) prepare an analysis of ongoing capital needs and submit a written capital plan; (9) correct all violations of law, rule, and regulation and adopt procedures to prevent their recurrence; and (10) [illegible] monthly compliance reports.

### 42. Bank with assets of $50 to $100 million

An examination disclosed that the quality of the loan portfolio had decreased sharply, with classified assets increasing dramatically. Large scale purchases of unsound loans from related banks, brokered funds activity, and numerous violations of law were also cited. The primary source of those problems was the poor quality of the bank's management and supervision. In addition, inadequate capital, an inadequate allowance for possible loan losses, and insider abuse were noted.

An Order to Cease and Desist, to which the board stipulated, required the bank to: (1) appoint a compliance committee to monitor and ensure adherence to the provisions of the Order; (2) cease making loans in violation of 12 USC 84 and correct those violations previously cited; (3) correct all violations of law, rule, or regulation, and adopt procedures to prevent their recurrence; (4) adopt a program to eliminate the basis for criticism of assets and cease making loans to criticized borrowers; (5) obtain and maintain current and satisfactory credit information and collateral documentation and cease making loans without such documentation; (6) revise its written lending policy; (7) refrain from extending credit except in compliance with the bank's loan policy; (8) implement a monthly loan review program; (9) conduct quarterly reviews of the adequacy of the bank's allowance for possible loan losses and maintain the allowance at an adequate level; (10) revise the bank's written liquidity and asset and liability management policy; (11) prepare an analysis of ongoing capital needs and develop a 3-year capital program; (12) restrict payments of dividends; (13) submit yearly budgets; (14) correct all internal control deficiencies; (15) review the sufficiency and competency of the present managerial staff; (16) review the sufficiency and competency of the board of directors; and (17) eliminate consumer law violations.

### 43. Bank with assets of $50 to $100 million

[illegible]

45. Bank with assets of less than $25 million

An examination revealed deterioration in the overall condition of the bank, especially in the loan portfolio. The deterioration was reflected in the large volume of classified assets and credit exceptions. The decline in loan quality was primarily due to ineffective supervision and failure to obtain current financial information. Earnings were poor because of heavy loan losses, and capital was considered marginal. Numerous consumer violations were noted as well as several other violations of law.

A Formal Agreement required the bank to: (1) appoint a compliance committee to monitor and ensure adherence to the Agreement; (2) correct all violations of law, rule, and regulation, and adopt procedures to prevent their recurrence; (3) eliminate any grounds of criticism for each asset in excess of $10,000 and stop making loans to criticized borrowers; (4) develop a program to improve collections and reduce delinquent loans; (5) obtain and maintain current and satisfactory credit information and collateral documentation, and cease making loans without such documentation; (6) revise its written lending policy; (7) adopt a written overdraft policy; (8) review the sufficiency and competency of the present managerial staff; (9) implement a monthly loan review program; (10) conduct quarterly reviews of the adequacy of the bank's allowance for possible loan losses; (11) prepare an analysis of ongoing capital needs and submit a written capital plan; (12) formulate written policies and procedures applicable to the investment portfolio; (13) restrict payment of dividends; (14) revise the bank's written liquidity, asset, and liability management policy; (15) correct all internal control deficiencies; (16) adopt a written internal audit program; (17) develop and implement a consumer compliance program; and (18) submit an annual budget.

46. Bank with assets of $50 to $100 million

Significant asset deterioration and poor earnings were the bank's major problems. Classified assets had increased primarily because of poor lending supervision and local economic conditions. Many credits were granted with unrealistic or liberal repayment programs. In addition, the bank's problem loan identification system needed improvement. The bank's large volume of low interest, fixed-rate loans and loan losses made earnings poor. An increase in the allowance for possible loan losses was required as a result of the examination.

A Memorandum of Understanding was executed which required the bank to: (1) develop a program to eliminate criticized assets, (2) review and modify the bank's loan review procedures, (3) review and maintain an adequate allowance for possible loan losses, (4) review and revise its lending policies, (5) establish a written program to improve collection efforts and reduce delinquent loans, and (6) formulate a written program to improve and sustain earnings. The board also agreed to report monthly to the regional administrator on actions taken to rectify matters criticized in the report of examination, actions taken to comply with the Memorandum, and the results of those actions.

47. Bank with assets of $25 to $50 million

An examination revealed substantial noncompliance with an outstanding Agreement with the bank. In addition, the examination showed that the bank's condition had deteriorated and that management was unwilling or unable to properly address the problems. The volume of classified assets was excessive and the volume of delinquent loans and loans lacking credit information was high. In addition, 2.5 percent of the loan portfolio was in nonaccrual status.

An Order to Cease and Desist was issued which required the bank to: (1) correct violations of 12 USC 84, (2) conduct a study of current management, (3) take prompt and continuing action to protect the bank's position relative to criticized assets; (4) provide for review of the bank's loan portfolio to ensure the timely identification of problem loans, (5) obtain and analyze current and satisfactory credit information, (6) adopt a written program to provide for improved collection efforts; (7) review the bank's allowance for possible loan losses on a quarterly basis, (8) implement a comprehensive management information system; (9) submit written investment and lending policies; (10) adopt and implement a written liquidity and asset and liability management policy for the bank; (11) analyze the bank's equity capital needs and formulate a written program to ensure the adequate capitalization of the bank; (12) correct internal control and audit deficiencies; (13) develop a program to ensure that the bank operates in compliance with all applicable consumer protection laws, rules, and regulations; and (14) correct violations of the Equal Credit Opportunity Act and the Fair Credit Reporting Act. The board was also required to report monthly to the regional administrator on actions taken to rectify matters criticized in the report of examination as well as actions taken to comply with the Order.

48. Bank with assets of $100 to $250 million

The bank had been operating under a Formal Agreement which addressed the bank's lending practices. The bank's overall condition continued to deteriorate because of past liberal lending practices, weak management administration, and adverse economic conditions.

Failure to follow written lending policy guidelines was [illegible] Those problems adversely impacted the bank's earnings, allowance for possible loan losses, and capital.

An Amended Formal Agreement was issued which required the bank to: (1) maintain primary capital equal to at least 7 percent of total assets; (2) assess the liquidity needs of the bank; (3) take prompt and continuing action to protect its interests with respect to those assets which are criticized; (4) review and maintain an adequate allowance for possible loan losses; (5) adhere to the amended lending policies; (6) correct violations of law; (7) certify in writing that investments of funds of any fiduciary account in the bank's own time or savings deposits were authorized by law and yielded a return commensurate with investments of similar duration and safety; (8) adopt and implement written policies and procedures to correct operating control deficiencies; and (9) evaluate management. The board also agreed to report monthly to the regional administrator on actions taken to rectify matters criticized in the report of examination, actions taken to comply with the Agreement, and the results of those actions.

## 49. Bank with assets of $50 to $100 million

The bank's principal problems were asset quality and administration, declining earnings, inadequate management, and inadequate control and supervision of international and Telex activities. There were high levels of criticized assets, overdue loans, and loans lacking current and satisfactory credit information. In addition, the bank had a relatively high level of nonaccrual loans.

A Memorandum of Understanding required the bank to: (1) appoint a compliance committee; (2) correct violations of law; (3) prepare a written management staffing plan; (4) analyze the bank's international operations and recommend to the board whether or not the board should continue international banking activities; (5) conduct a study of the bank's use of Telex and TWX communication terminals; (6) establish a system of problem loan identification; (7) review written lending policies and procedures; (8) implement a written program to estimate criticized assets; (9) obtain and maintain current and satisfactory credit information; (10) adopt a written plan to improve collection efforts; (11) implement a policy outlining when to capitalize [illegible] rewritten with interest added to the [illegible]; (12) prepare a written plan to [illegible] the earnings of the bank and to [illegible] capital structure; (13) develop a [illegible] program; and (14) correct [illegible] the [illegible]

## 50. Bank with assets of more than $1 billion

The primary problem facing the bank was asset quality. Of particular concern were the high classified assets, the significant amount of nonaccrual loans, and the poor earnings. Deteriorated asset quality directly impacted earnings because the bank was required to make a substantial provision to its allowance for possible loan losses.

A Memorandum of Understanding required the bank to adopt a capital plan, take immediate and continuing action to protect the bank's interest with regard to criticized assets, extend no additional credit to classified borrowers unless in the best interest of the bank and with prior written board approval, adhere to the written collection policy, and develop a written policy for placing loans into nonaccrual status.

## 51. Bank with assets of $25 to $50 million

The bank had been operating under an Order to Cease and Desist. However, the latest examination revealed continuing violations of law and regulation, noncompliance with the outstanding Order, further deterioration in loan portfolio administration, lack of an internal audit program, and large loan losses, the largest of which resulted from previously granted insider-related credits. Because of those large loan losses, the bank's earnings had suffered. The problems were further aggravated by the failure of the board of directors to adequately supervise the affairs of the bank and by management's inability to provide the necessary guidance.

An Amended Order to Cease and Desist was issued, and stipulated to by the board of directors. The Order amended the 1979 Order and required the bank to: (1) submit written progress reports every 60 days; (2) review and revise its management structure, with particular regard to the independence and competence of the chief executive officer; (3) appoint an experienced and competent senior lending officer; (4) correct all violations of law, rule, or regulation, and adopt procedures to prevent recurrence of similar violations, including procedures to be incorporated in its internal audit program; (5) correct criticisms of assets in excess of $75,000; (6) adopt a written audit program and appoint an internal auditor; (7) take immediate and continuing action to recover all losses charged off on specified credit extensions; (8) hire an independent counsel to examine and review specified credit extensions to determine the extent of possible loss to the bank and the extent of insider benefit from these loans; (9) implement a quarterly loan review system independent of the lending function; (10) develop a written program to improve and sustain earnings and submit yearly budgets; and (11) develop a written consumer compliance program.

52. Bank with assets of $50 to $100 million

The bank has been operating under an Order to Cease and Desist which dealt with asset administration, earnings, and management. However, the condition of the bank continued to deteriorate, especially with respect to its loan portfolio. The cause of the deterioration included liberal policies, inadequate management, and poor economic conditions in the area. Management problems were compounded by the indictment of two bank officials for fraud. Both were suspended pending final settlement of their indictments, and their departure left a significant gap in bank management.

A Notice of Charges and an Amended Order to Cease and Desist were issued. The Order required the bank to: (1) appoint a compliance committee, a majority of whom were non-officer directors, to monitor and ensure adherence to the Order; (2) correct all violations of law, rule, and regulation, and adopt procedures to prevent recurrence of similar violations; (3) review the sufficiency and competency of the present managerial staff; (4) appoint a suitable senior lending officer within a specified time; (5) correct criticisms of assets and periodically report on progress made in this area; (6) cease making loans to borrowers holding criticized loans; (7) obtain and maintain current and satisfactory credit information and collateral documentation and cease making loans without such documentation; (8) adopt a policy addressing circumstances under which the bank may capitalize interest on rewritten loans; (9) conduct monthly reviews of collection efforts; (10) adopt collection policies and procedures to reduce the level of delinquent loans; (11) continue monthly review of the adequacy of the allowance for possible loan losses; (12) establish, in writing, a formal budgeting process and submit yearly budgets; (13) adopt a written funds management policy; (14) ensure that all relationships with correspondents and related interests of insiders are in the best interests of the bank and conform with applicable law; and (15) comply with the restitution provisions of the Truth-in-Lending Simplification and Reform Act.

53. Bank with assets of less than $25 million

The bank's problems consisted of excessive classified assets, past-due loans, poor earnings, and inadequate capital. In addition, the bank was not adequately identifying its problem loans. Loan losses necessitated an abnormally high provision to the allowance for possible loan losses. The deteriorating loan portfolio and the special provision to the allowance for possible loan losses have affected earnings

An Order to Cease and Desist, stipulated to by the bank, required it to: (1) maintain a primary capital equal to at least 7 percent of total assets, (2) refrain from declaring dividends except under certain circumstances, (3) develop a budget, (4) correct all violations of law, (5) take prompt and continuing action to protect the bank's position relative to criticized assets; (6) refrain from extending additional credit to classified borrowers, unless in the best interest of the bank and with prior written board approval, (7) formulate an independent loan review program, (8) review the adequacy of the allowance for possible loan losses; (9) adopt policies and procedures for supervision and control of delinquent loans, and adopt a written program to improve collection efforts, (10) implement a written program to effect adequate auditing procedures; and (11) submit monthly written progress reports.

54. Bank with assets of less than $25 million

Weak board supervision, failure to appoint an effective chief executive officer, lack of management depth, and the adverse activities of the former president contributed to the bank's poor condition. Classified assets had increased substantially and both documentation exceptions and past due loans were inordinately high.

An Order to Cease and Desist required the bank to (1) appoint a compliance committee, (2) correct all violations of law, (3) develop a plan to reduce or strengthen criticized assets, (4) refrain from extending additional credit to any criticized borrower without approval of a majority of the directors, (5) correct all credit information deficiencies and collateral exceptions, (6) refrain from extending credit except in conformance with loan policies and procedures, (7) establish an adequate loan review system, (8) review the adequacy of the allowance for possible loan losses, (9) develop a capital plan, (10) declare no dividends except under certain circumstances, (11) submit a budget, (12) conduct a study of current management, (13) revise the written liquidity and asset and liability management policy, (14) correct internal control deficiencies, and (15) develop a program to strengthen the internal audit function.

55. Bank with assets of more than $1 billion

An examination of the bank revealed deterioration in the condition of the bank, especially in the loan portfolio. The bank's problems included high levels of criticized assets and non-performing loans, seriously increased loan losses, and doubtful assets equal to almost one-fourth of the primary capital. The bank's loan support systems, including the internal credit review function, were inadequate. Those loan portfolio problems had diminished earnings and placed a serious strain on capital and on the allowance for

possible loan losses. In addition, certain violations of law were noted, including violations of Regulations B and Z.

A Formal Agreement was entered into with the bank which required it to: (1) appoint a committee to monitor and ensure adherence to the Agreement, (2) conduct an ongoing review of the loan portfolio, (3) continue in its program to eliminate the basis of criticism of assets, (4) review and revise its credit approval process, (5) review and revise its lending policy, (6) implement procedures to strengthen the administration of the loan function, (7) obtain current and satisfactory credit information and collateral documentation, (8) correct all violations of law, rule, or regulation, (9) develop and submit a strategic business plan, (10) reevaluate the bank's funding policy and plan, and (11) develop, within a specified period, comprehensive disaster recovery plans to address unexpected delays or interruptions in data processing.

### 56. Bank with assets of $25 to $50 million

A recent examination revealed several violations of law, including nine violations of 12 USC 84 and violations of 12 USC 375a and 375b involving reporting requirements and the handling of insider overdrafts. Classified assets were high and the bank's internal loan review system and loan policy were inadequate. Capital was impacted by the effect of loan losses on earnings. There were several violations of consumer laws.

A Formal Agreement required the bank to correct all violations of law, including the consumer violations. The bank's loan review system was to be reviewed and revised as was the bank loan policy. A written program to eliminate the grounds upon which the loans had been criticized was to be developed, and restrictions were placed on further lending to borrowers whose loans were criticized. The bank's capital was to be analyzed and a plan for present and future capital needs prepared. An earnings and financial program was called for. Finally, the bank was to devise a consumer compliance program to eliminate the consumer violations and ensure future compliance.

### 57. Bank with assets of less than $25 million

A recent examination revealed excessive criticized assets. The bank had a high volume of past-due loans and credit information and collateral exceptions. Loan administration was weak. The allowance for possible loan losses was not reviewed and updated periodically. [illegible] the bank by the board of directors was [illegible]. There was a need [illegible] staff in view of the workload and capabilities of the existing staff. Liquidity was only marginal. The consumer part of the examination revealed two violations of 12 CFR 202 and 226.

A Formal Agreement required the bank to develop and implement a written program to eliminate the grounds upon which loans had been criticized and to restrict lending to borrowers whose loans were criticized. The bank was called upon to obtain current and satisfactory credit information and to correct collateral exceptions. Quarterly reviews of the adequacy of the allowance for possible loan losses were required. The board of directors was to formulate a written outline of its duties and responsibilities and to implement a program to ensure those duties were performed. The lending staff of the bank was to be reviewed for adequacy. Although the bank's capital was adequate, the bank was required to formulate a future capital plan designed to maintain its capital at an adequate level in view of the high level of classified assets and expected loan losses. Violations of regulations in the consumer area were to be corrected and a compliance committee established.

### 58. Bank with assets of less than $25 million

A recent examination showed that the bank had suffered a deterioration in asset quality and a corresponding rise in classified loans. Losses had severely impacted earnings, with an adverse effect on the adequacy of the bank's capital. The allowance for possible loan losses was inadequate to offset the high losses. Undue concentrations of credit existed and the bank's lending policy needed to be rewritten. The bank's loan review system was not effective. Many loans were not supported by proper credit information and collateral exceptions were high. In addition to violations of the consumer affairs laws and the lack of a formal compliance program in that area, several violations of law in the commercial area were cited, including a violation of 12 USC 84.

A Formal Agreement required the bank to devise and adopt a program for eliminating the ground upon which loans were criticized. The bank was to develop an earnings and financial plan and to devise a capital plan as well. The bank was to establish and maintain an adequate allowance for possible loan losses. Undue concentrations of credit were to be reviewed and lessened where necessary. The bank's lending policy was to be reviewed and revised and its loan review system rewritten. Proper credit information was to be obtained and considered for all loans cited as lacking such information, and collateral exceptions were to be corrected. Violations of law, both consumer and commercial, including the violation of 12 USC 84, were to be corrected.

59. Bank with assets of $25 to $50 million

The bank's problems included excessive classified assets, poor loan administration, poor funds management, and numerous violations of consumer law. Classified assets equalled 137 percent of gross capital funds and, while area economic conditions had been adverse, the increase in classified assets appeared to be the result of poor loan administration; 21 percent of the portfolio was not supported by current credit information. There was no funds management strategy or policy. As a result, the bank faced a liquidity problem, with loans equalling 86 percent of deposits. The bank was borrowing to support its lending activity and the investment portfolio was long term. Interest margins were well below peer averages and, coupled with increasing loan loss provisions, would adversely affect earnings in the future.

A Formal Agreement required the bank to take prompt action to: (1) protect its interests with respect to criticized assets; extend no additional credit to classified borrowers, unless in the best interest of the bank and with prior written board approval; (2) obtain and maintain satisfactory credit and collateral documentation; (3) provide for reviews of the bank's loan portfolio to ensure timely identification of problem loans; (4) adopt a written program to improve collection efforts; (5) revise the bank's lending policies to include capitalization of interest and nonaccruals; (6) periodically review the bank's allowance for possible loan losses; (7) adopt and implement written policies regarding funds management; (8) correct violations of law; (9) develop a consumer compliance program; (10) prepare an analysis of the bank's capital requirements; and (11) prepare a written audit plan.

60. Bank with assets of $50 to $100 million

An examination revealed deterioration in the condition of the bank, especially in the loan portfolio. Classified assets were extremely high and constituted a major problem for the bank. Credit and collateral exceptions were excessive and loan delinquencies were also very high. Participations from other institutions were the primary cause of the decline in asset quality.

A Formal Agreement required the bank to: (1) appoint a compliance committee, (2) implement a written program to eliminate criticized assets, (3) correct credit information deficiencies, (4) review and revise the internal loan system, (5) improve collection efforts, (6) revise the written lending policy, (7) adopt procedures for determining management's compliance with adopted policies, (8) conduct quarterly reviews of the adequacy of the allowance for possible loan losses, (9) maintain primary capital equal to at least 7 percent of total assets, and (10) review coverage under its blanket bond insurance.

61. Bank with assets of $25 to $50 million

The bank rapidly expanded its lending functions into new areas without the expertise and manpower to adequately supervise the new activity. Liberal credit standards were employed to enter new markets. Loan policies and procedures were inadequate. As a result the volume of classified assets and past due loans increased dramatically.

A Formal Agreement required to the bank to: (1) appoint a compliance committee, (2) take prompt action to protect the bank's position relative to criticized assets; (3) extend no additional credit to classified borrowers, unless in the best interest of the bank and with prior board approval; (4) review and revise the written lending policy; (5) adopt a policy for bank expansion activities; (6) correct all violations of law, (7) complete a written analysis of management and staffing needs; and (8) provide the regional administrator with a copy of the electronic data processing report.

62. Bank with assets of $500 million to $1 billion

An examination revealed deterioration in the overall condition of the bank, particularly in the loan portfolio. Criticized assets and past-due loans had increased dramatically, and there was a large volume of nonaccrual loans. Weaknesses were noted in the administration and supervision of the bank's lending operations.

A Formal Agreement required the bank to: (1) conduct an evaluation of all executive and lending officers, (2) take immediate and continuing action to protect its interest with regard to criticized assets, (3) improve collection efforts and reduce delinquent loans, (4) ensure compliance with the written lending policies, (5) prepare an analysis of present and future equity capital needs, (6) correct all violations of law, (7) revise the written audit program, and (8) submit monthly progress reports.

63. Bank with assets of $100 to $250 million

The examination revealed that the condition of the bank had substantially deteriorated and that its volume of criticized assets was extremely high. The bank had a severe rate sensitivity imbalance and poor earnings: a $1.5 million loss for the year. The bank's investment portfolio was extended and severely depreciated—45% of the portfolio had maturities of 10 or more years and depreciation equalled more than 190 percent of the bank's gross capital funds. Capital was inadequate and the bank had several violations of law, including lending limit violations due to diminution of capital, and violations of 12 USC 60 for illegal payment of dividends. The loan portfolio problems were due in large part to poor credit supervision which had resulted in a large volume of credit exceptions and delinquencies.

[illegible] This bank had paid an illegal dividend and had improperly transferred tax benefits to its holding company. Excessive salaries and fees to the chairman of the board and principal shareholder and illegal overdrafts to directors demonstrated a general disregard for the law. There was an overall lack of written policies. The bank's retail repurchase agreement program was not in compliance with Banking Circular 157.

A Formal Agreement was entered into which addressed each of the above items. The Agreement specifically required correction of the lending limit violations, reimbursement of the illegal dividend, and correction of all other violations of law, rule, and regulation. The income tax benefit was to be reversed or reimbursed and procedures were to be established to prevent recurrence of violations. A written program for eliminating criticized assets was required, as were a revised loan policy, an internal loan review program, and a prohibition against further lending to borrowers with criticized loans. The Agreement required the bank to obtain and analyze credit information before extending credit, and required the correction of all credit information deficiencies. It also required a quarterly review of the allowance for possible loan losses, and the establishment of an investment committee to oversee the investment portfolio. An analysis of the bank's earnings and a plan to improve the banks' earnings was mandated, as was a written funds management policy. The bank was required to achieve and maintain a ratio of primary capital to total assets of at least 7 percent. The bank was required to undertake a management study which would review the existing service contracts and other remuneration paid to insiders. Finally, the bank was required to submit written progress reports.

### 64. Bank with assets of $50 to $100 million

Two consecutive examinations had revealed the bank's unsatisfactory condition. Primary capital was extremely low, there were severe imbalances in rate-sensitivity and the bank had a net operating loss for 2 years. The bank had three loans which were in excess of the legal lending limit because of the decrease in capital. Criticized assets and past-due loans were both excessive, and approximately 46 percent of the criticized loans had been purchased from another bank. The bank's investment portfolio had an excessively long average maturity and depreciation in the portfolio equalled more than 200 percent of adjusted capital funds.

A Formal Agreement was presented to and signed by the bank. The Agreement required correction of the violations of [illegible] and written [illegible]. The bank was required to employ [illegible] management practices and earnings, and to implement a funds management policy. Dividends were to be paid only when legally permitted and with the prior written approval of the appropriate Deputy Comptroller. The bank was required to achieve and maintain primary capital equal to 7 percent of total assets. The bank was to implement a written program to improve its criticized assets and to extend no credit to borrowers whose loans were criticized. A policy for purchases of loan participations was required, as was the implementation of a program to reduce delinquencies. The board was to approve all securities purchased in excess of $100,000. The bank was required to submit written progress reports.

### 65. Bank with assets of less than $25 million

The examination revealed that the bank was in extremely serious condition. Classified assets, credit information exceptions, and past-due loans were all extremely high. Many criticized assets had resulted from fraudulent activities by a former vice president, who, among other things, had made loans to nonexistent borrowers on the basis of nonexistent collateral. Losses taken at the examination equalled the bank's profits for the preceding 4 years. The bank had recently suffered a run on deposits when the principal owner was convicted of fraud. A further run on deposits was expected when the quarterly report of condition was published, showing the bank's substantial losses. The bank was extremely illiquid and would probably not be able to respond to an extraordinary deposit run off. Capital was inadequate and further losses were expected. The internal audit was limited in coverage and there were no formalized procedures governing internal controls. Several violations of law were noted, including violations of the lending limit, a repeat violation of 12 USC 371d, and violations of consumer credit regulations. Management was understaffed and could not adequately address the bank's problems.

A Temporary Order to Cease and Desist was served on the bank because of the imminent publication of the report of condition. The Temporary Order required an immediate increase in the bank's liquidity.

A permanent Order to Cease and Desist was also presented to the bank and, after a brief delay, the bank consented to it. The permanent Order addressed the need for an immediate increase in liquidity. In addition, it required the bank to achieve and maintain primary capital equal to at least 7 percent of total assets and prohibited the payment of dividends without the prior written approval of the appropriate Deputy Comptroller. The bank was required to develop written policies for funds management and liquidity, and to establish a written program to eliminate

criticized assets. Collateral exceptions and credit information exceptions were to be eliminated, and collection efforts were to be increased. In addition, a policy was to be established to ensure that all loans were to real borrowers and were based on existing collateral. An internal loan review system was mandated, as were quarterly reviews of the allowance for possible loan losses. The bank was required to correct the violations of 12 USC 84 and all other violations of law. A management study was required, and the bank was instructed to develop an internal audit and to correct internal control deficiencies.

### 66. Bank with assets of less than $25 million

The examination revealed that this small agricultural bank had a large volume of classified assets and poor earnings. In addition, the bank had a large volume of past-due loans and loans lacking current or satisfactory credit information. Poor credit selection and poor loan supervision due to inadequate management had caused these problems. Eight violations of the bank's lending limits were listed in the examination and 17 violations had been listed in previous reports. The eight current violations involved extensions of credit to classified borrowers. The bank's allowance for possible loan losses was inadequate and required a substantial provision to cover losses cited at the examination. The consumer report cited violations of consumer laws and regulations and the lack of a compliance program. The electronic data processing report cited deficiencies in the audit procedures for data processing. The bank's capital was declining although, at 8.3 percent of total assets, it was currently adequate.

A Formal Agreement was presented to and signed by the bank. The Agreement required: a management study, a program to eliminate criticized assets, a formal written loan policy, the establishment of a discount committee to review loans, that adequate credit information be obtained before extending additional credit, an internal loan review system, provisions to the allowance of possible loan losses, and quarterly reviews of the allowance. In addition, the Agreement required that the violations of 12 USC 84 and other laws be corrected. The bank was directed to correct violations of consumer laws and to establish a compliance program. The bank was to correct the audit deficiencies cited in the electronic data processing report and to make periodic progress reports to the appropriate Deputy Comptroller.

### 67. Bank with assets of less than $25 million

The bank, which is family-owned and operated, had for many years suffered from high levels of classified assets. Management's poor supervision of the portfolio was shown in credits lacking repayment schedules and adequate credit and collateral documentation. Capital was adequate although growth had been restrained by heavy dividends which were used to fund holding company debts.

A Formal Agreement required correction of all consumer law violations and implementation of a consumer compliance program. The board agreed to implement programs to eliminate assets from criticized status, maintain sufficient credit and collateral documentation, develop an independent loan review function, and maintain an adequate balance in the allowance for possible loan losses. A 5-year capital plan, written funds management policy, internal audit program, and correction of internal control deficiencies were also requested.

### 68. Bank with assets of $50 to $100 million

An examination revealed deterioration in the overall condition of the bank. In particular, the examination revealed violations of law, inadequate lending policies, high levels of classified assets, an inadequate allowance for possible loan losses, poor liquidity, inadequate funds management policies, and high levels of past-due loans. These problems were attributable to poor economic conditions as well as deficiencies in bank management and board supervision.

A Formal Agreement was entered into which required the bank to: (1) correct violations of 12 USC 84, (2) correct other violations of law; (3) conduct a review of bank's liquidity needs and take all steps necessary to ensure adequate liquidity; (4) adopt and implement a funds management program, (5) develop a written program for classified assets; (6) refrain from extending any further credit to previously criticized borrowers; (7) obtain and maintain current and satisfactory credit information; (8) strengthen collection efforts, (9) maintain an adequate allowance for possible loan losses; (10) revise the bank's lending policies, (11) complete a written staffing and management study, and (12) adopt and implement a comprehensive budget. The Agreement also required the board to reimburse the bank for certain overdraft fees.

### 69. Bank with assets of $500 million to $1 billion

An examination revealed deterioration in the overall condition of the bank's trust department. In particular, the examination revealed deficiencies in asset administration, inadequate dual control procedures, and management and staffing deficiencies. These problems were primarily attributable to ineffective supervision and management of the bank's trust operations.

A Formal Agreement required the bank to appoint a compliance committee, audit the trust department

[illegible] to [illegible] [illegible] violations of law [illegible] [illegible] of the administration of the trust department [illegible] implemented a written plan [illegible] and evaluate the continued viability and profitability of the bank's trust operations.

70. Bank with assets of $250 to $500 million

An examination revealed deterioration in the overall condition of the bank. In particular, the examination revealed high levels of criticized assets and past-due loans, deficiencies in the bank's lending policy and EDP functions, and poor earnings. Those problems were primarily caused by poor economic conditions, aggressive lending practices, and high non-interest expenses.

A Memorandum of Understanding required the bank to (1) appoint a compliance committee, (2) develop a program for criticized assets, (3) extend no further credit to criticized borrowers, (4) revise the bank's lending policy, (5) develop an internal loan review system, (6) strengthen collection efforts, (7) restrict the payment of dividends, (8) formulate a written earnings program, (9) implement a capital plan, (10) revise the bank's guidelines for the management of assets and liabilities, and (11) correct electronic data processing deficiencies.

71. Bank with assets of $100 to $250 million

An examination revealed deterioration in the overall condition of the bank. In particular, the examination revealed high levels of criticized assets, violations of law, and poor earnings. These problems were primarily caused by the depressed farm economy and bank management's failure to address changes in the condition of the bank's loan portfolio.

A Memorandum of Understanding was entered into which required the bank to develop a written program for criticized assets, extend no further credit to criticized borrowers, correct violations of law, formulate a written earnings program, and submit written progress reports.

72. Bank with assets of less than $25 million

[illegible] operating under a Formal Agreement. The examination revealed significant noncompliance with the provisions of the Agreement, and that the bank's condition had deteriorated to become critical. The [illegible] problems were a severe lack of [illegible] criticized assets and past-due [illegible] not supported by [illegible].

[illegible] was [illegible] by [illegible] a [illegible]

capital injection and required capital to be maintained at 7 percent of total assets thereafter. In addition, the board was required to: (1) provide the bank with a chief executive officer and a new senior lending officer, (2) review and modify the program to eliminate all assets from criticized status, (3) refrain from lending to borrowers with criticized loans unless specially approved, (4) obtain satisfactory credit information on loans and refrain from restructuring any loans without satisfactory credit information, (5) maintain the allowance for possible loan losses at an adequate level and make quarterly reviews of its adequacy, and (6) correct violations of law.

73. Bank with assets of $100 to $250 million

Bank management had emphasized asset growth in recent years, and, consequently, had allowed other areas of the bank to deteriorate. Since the previous exam, the SP ratio had risen dramatically and overdue loans had quadrupled. In addition, earnings had been overstated because of the capitalization of accrued and uncollected interest, the allowance for possible loan losses was inadequate, credit exceptions were high, and problem loans were poorly identified.

A Formal Agreement required the bank to correct all violations of law, appoint a special committee to study bank management and organizational structure, create an independent internal loan review program, protect the bank's interests in its criticized assets and implement a written program to eliminate the bases of criticism and curtail future loans to any borrower whose aggregate criticized loans exceed or would exceed $100,000, unless specifically approved by the board. Other provisions of the Agreement required the board to establish guidelines for when a loan may be restructured, to reverse or charge-off interest that was accrued contrary to the call report instructions, to correct credit information deficiencies, to review and revise the bank's loan policy, to review and revise the bank's written funds management policy, to review and analyze the bank's earnings capacity, and to implement a written profit plan and annual budgeting procedures. Finally, the Agreement required the board to review and analyze the bank's capital needs and to develop a plan to maintain adequate capital, to make written disclosure to customers who bought bank securities under repurchase agreement, to correct violations of law or deficiences cited in the trust report of examination, and to file quarterly progress reports with the appropriate Deputy Comptroller.

74. Bank with assets of less than $25 million

An examination revealed both serious deterioration in the overall condition of the bank and noncompliance with an outstanding Formal Agreement. In particular,

the examination revealed violations of law, poor earnings, high levels of criticized assets, inadequate capital, high levels of past-due loans, an inadequate allowance for possible loan losses, and lending policy deficiencies. These problems were primarily attributable to economic conditions, inadequate management, and ineffective supervision by the board of directors.

An Order to Cease and Desist was issued and stipulated to by the board of directors. The Order required the bank to: (1) appoint a compliance committee; (2) appoint a chief executive officer; (3) complete a written management study; (4) complete a review of the board's supervision; (5) correct violations of 12 USC 84; (6) correct other violations of law; (7) maintain primary capital equal to 7 percent of assets; (8) develop a written capital program; (9) refrain paying dividends unless in accordance with the law, and with the prior approval of the appropriate Deputy Comptroller; (10) submit a written earnings program; (11) develop a written program for criticized assets; (12) improve its collection efforts; (13) maintain an adequate allowance for possible loan losses; (14) implement an internal loan review system; (15) revise its lending policies; (16) correct internal control deficiencies; (17) develop a funds management policy; and (18) submit written progress reports.

### 75. Bank with assets of $25 to $50 million

A recent examination disclosed that the bank had an excessive volume of criticized assets. It had failed to provide a sufficient allowance for possible loan losses and was operating with an inadequate collection program. The bank had insufficient credit information and weak collateral documentation for many loans. The bank had compensated its controlling director in salary, bonuses, and expense reimbursements without maintaining sufficient documentation for proper review by the board of directors. The bank operated without adequate internal control policies.

An Order to Cease and Desist required the bank to correct violations of law and to adopt and follow a written program to strengthen and eliminate the grounds for criticism of assets of $50,000 or more. Restrictions were imposed on extending additional credit to criticized borrowers. A problem loan identification system was to be established and an adequate allowance for possible loan losses maintained. Current and satisfactory credit information was to be obtained for all loans identified in the examination report as lacking such information. The bank was to revise its lending policy and to establish standards for purchasing loan participations. A written program to strengthen collection efforts was called for. The bank was ordered to maintain capital at 8 percent of assets. Budgets for coming years were required. A specific prior notice requirement for dividends was imposed and the bank was to cease transferring alleged contributions to a consolidated tax liability and to its affiliates in amounts in excess of the actual separate tax obligation of the bank. Finally, the bank was directed to employ outside counsel to review the compensation and expenses paid to or for the benefit of the directors and to report whether such was justified in light of services provided to the bank. Internal control deficiencies were also to be corrected.

### 76. Bank with assets of less than $25 million

A recent examination had revealed an excessive volume of criticized loans. The bank had failed to establish and follow policies covering lending practices, loan administration, and loan review. The bank had failed to obtain and maintain current and satisfactory credit information on many loans and did not have adequate collateral documentation. The bank had not established an adequate allowance for possible loan losses and did not have a sufficient liquidity funds management program. Lastly, the bank had failed to comply with several articles of a Formal Agreement relating to its problems which it had earlier entered into with the Office of the Comptroller of the Currency.

A Notice of Charges was served alleging the unsafe and unsound banking practices described and the violation of the Formal Agreement with the OCC as grounds for an Order to Cease and Desist to remedy the conditions.

### 77. Bank with assets of $100 to $250 million

A recent examination revealed excessive poor quality loan participations without adequate and satisfactory credit or collateral documentation. The bank had an excessive concentration of loans to one individual and the individual's family, business, and related interests. The concentration of loans, which equalled more than 210 percent of capital, included the classified loan participations referred to above and other classified loans made or acquired without adequate or satisfactory credit information or collateral documentation. Excessive extensions of credit had been made outside the bank's normal lending area. The bank had paid excessive salaries, fees, bonuses, and expenses to its executive officers, their business interests, family members, and related interests. It had also violated certain laws and regulations, including some in the operation of its trust department. The trust department was inadequately staffed and managed and had become out of balance in many of its accounts.

A Notice of Charges and a Temporary Cease and Desist were served on the bank. The [illegible]

[illegible] required the bank to immediately stop purchasing assets from any financial institution if they were classified or if the proceeds were used to pay off classified loans. The Temporary Order also prohibited the sale or other transfer of assets by the bank without full and complete written disclosure to the prospective purchaser of all factors bearing upon the credit quality, collectibility, and legal sufficiency of the asset being sold. The bank was prohibited from increasing the concentrations of loans and was ordered to review existing concentrations and consider whether it was necessary to reduce them. Out-of-area loans were prohibited without a prior, lengthy and detailed analysis by the board of directors of the credit standards to be applied. The bank's board was required to review and give prior approval to all extensions of credit in excess of $100,000. Restrictions were placed on extensions of credit or renewals to criticized borrowers.

A permanent Order to Cease and Desist was then issued which incorporated the terms and requirements of the Temporary Order and added requirements for a compliance committee, restrictions on repurchasing participations or other assets, and requirements for correction of all violations of law found in the examination, including violations relating to the consumer laws and the bank's trust department. Additionally, the permanent Order to Cease and Desist required that the board of directors review the reasonableness of the salaries, fees, bonuses, and expenses paid to executive officers and their family members or interests and determine whether any adjustments needed to be made. A review of the trust department's current and future management needs was also required, together with correction of all out-of-balance trust accounts. Finally, the bank was to develop needed trust department policies and procedures.

### 78. Bank with assets of less than $25 million

A recent examination revealed that the bank needed a new chief executive officer and other management personnel. It also needed a capital injection. The bank's financial accounting and recordkeeping system were in disarray. Numerous internal control deficiencies were cited. The bank had an excessive volume of criticized assets and needed to take action with regard to delinquent loans. Current and satisfactory credit information was lacking on many loans and the bank lacked guidelines for placing delinquent loans on a nonaccrual status. The internal loan review system needed to be reviewed and updated. The allowance for possible loan losses needed to be [illegible] the bank's earnings program needed [illegible] program imposed. An [illegible] of law had to be corrected including violations of consumer law.

A Formal Agreement was entered into with the bank which required that a new chief executive officer be provided along with a new operations officer. The board was to study other management needs and to provide for qualified management. In addition, capital was to be injected. A CPA firm was to be engaged to review the bank's financial accounting and recordkeeping system and recommend changes and improvements. The internal control exceptions cited in the examination report were to be corrected within 90 days and the board was to develop a program to remove all assets from criticized status, with restrictions placed on renewing or granting additional credit to borrowers whose loans were criticized. Written procedures governing the identification, review, and collection of delinquent loans were to be adopted. Current and satisfactory credit information was to be obtained for all loans and guidelines were to be established for placing delinquent loans in nonaccrual status. The internal loan review system was to be reviewed and amended within 90 days and the allowance for possible loan losses brought to an acceptable level. An earnings program and budget was to be created and an investment policy was to be developed. All violations of law were to be corrected.

### 79. Bank with assets of $500 million to $1 billion

The subject bank had experienced dramatic growth over the past 3 years as a result of the energy boom. The bank's condition experienced a swift reversal simultaneous with the downturn in energy and the general economy. The impact of the economic downturn was compounded by a general breakdown in fundamental lending practices. As a result, the bank had accumulated excessive classified assets and credit exceptions. The management of lending had been labeled as being generally ineffective, declining asset quality had threatened an already suspect liquidity position; and capital was inadequate.

A Formal Agreement was entered into which required elimination of criticized assets and rehabilitation of lending practices, renewed attention to the level and nature of interest-sensitive funding sources, restoration of an adequate capital base, with appropriate future planning and dividend restrictions, maintenance of an adequate allowance for possible loan losses, and evaluation of the responsibilities, depth and quality of management.

### 80. Bank with assets of $25 to $50 million

The subject bank is located in a coal mining and livestock raising area. The economy is weak and the

bank's loan portfolio was in poor condition. Despite a Formal Agreement, insider-dominated management had failed to take effective action to improve the bank's condition. Classified assets had increased substantially, as had past-due loans, credit exceptions, and loans in non-accrual status.

An Order to Cease and Desist was issued to replace the Agreement and required a compliance committee of outside directors due to the domination of bank affairs by the chief executive officer and majority shareholder. The document strengthened the Formal Agreement in the area of loan administration and violations of law and addressed the new problem areas of reporting non-accrual items and past-due loans. A management study was also required.

### 81. Bank with assets of less than $25 million

The subject bank is located in a small agriculture-based, residential community and had been operating under a Formal Agreement. Non-compliance with the Agreement, adverse economic factors, liberal lending practices, poor lending supervision, and poor credit administration had led to a substantial deterioration in the bank's condition. Classified assets were excessive and held a large potential for loss. The bank's allowance for possible loan losses was inadequate and post-examination adjustments had exhausted 1982 earnings.

An Order to Cease and Desist was stipulated to by the bank. It required correction of all violations of law; elimination of criticized assets and rehabilitation of lending practices; maintenance of an adequate allowance for possible loan losses; evaluation of the responsibility, depth, and quality of management; a 3-year capital plan; and annual budgets.

### 82. Bank with assets of $100 to $250 million

The deterioration of the subject bank's condition was centered in the commercial and agricultural segment of the loan portfolio. Classified assets were extremely high. The bank's inadequate loan administration and inexperienced lending staff, together with depressed economic conditions, were the primary cause of the problems.

A Memorandum of Understanding was entered into which required programs to eliminate criticized assets and ensure compliance with written policies, a study of the adequacy of lending staff, documentation of review of the allowance for possible loan losses, and monthly progress reports.

### 83. Bank with assets of more than $1 billion

The bank had been operating under a Memorandum of Understanding since 1982. Due to substantial non-compliance with the Memorandum, the bank's condition had continued to deteriorate. The bank's problems were two-fold—poor asset quality, reflected by classified assets, overdue loans, and loans in nonaccrual status and poor earnings performance. The bank historically had been an aggressive lender, and that posture, coupled with the downturn in the local economy, had had a detrimental effect on the condition of its portfolio. Those problems were compounded by the lack of an adequate management staff, especially in the international department. Poor earnings performance was the result of an increased loan loss provision and declining net interest margins. In addition, several violations of law were noted, with an undue portion generated by the bank's dealer department.

A Formal Agreement was entered into with the bank which required it to: (1) adopt a program to eliminate the basis of criticism of assets and to cease making loans to borrowers holding criticized loans in excess of $500,000; (2) conduct a monthly review of all criticized assets exceeding $500,000; (3) correct all violations of law, rule, and regulation, especially violations of 12 USC 84, and adopt procedures to prevent their recurrence; (4) correct all deficiencies in the bank dealer department and adopt written procedures designed to prevent their recurrence; (5) prepare an analysis of ongoing capital needs and submit a written capital plan; (6) review the sufficiency and competency of the present managerial staff, with particular regard to the bank dealer and international departments; and (7) submit monthy compliance reports.

### 84. Bank officer

Examination of the bank and the results of a special audit committee report indicated that the former director and officer of the bank had caused the bank's affairs to be conducted in an unsafe and unsound manner. He had violated applicable laws, rules, and regulations, including 12 USC 375b and 12 CFR 215.4(b). Further, he had breached his fiduciary duty to the bank by using his official position at the bank for personal gain. The bank examiner made a civil money penalty referral against the former bank director on the basis of the 12 USC 375b and 12 CFR 215.4(b) violations.

A Formal Agreement prohibited the bank director from serving or participating in any manner in the conduct of the affairs of any national bank, any Federal Reserve member bank, or any FDIC-insured bank without the approval of the proper agency. Pursuant to the Agreement, he waived his right to a hearing, his rights under 12 USC 1818(b) and (e), and 12 CFR 19, judicial review, and any other right to challenge this Agreement.

85. Bank with assets of less than $25 million

An examination revealed serious deterioration in the overall condition of the bank. In particular, the examination revealed high levels of criticized assets, loans lacking current and satisfactory credit information, an inadequate allowance for possible loan losses, inadequate capital, poor earnings, and numerous violations of law. These problems were primarily attributable to inadequate management, ineffective board supervision, and general economic conditions.

An Order to Cease and Desist, to which the board stipulated, required the bank to: (1) conduct a review of management and implement a management plan; (2) adopt a written conflict of interest policy; (3) develop a written program for criticized assets; (4) revise its lending policies; (5) obtain and maintain current and satisfactory credit information; (6) develop a written collection program; (7) establish a loan review system; (8) maintain an adequate allowance for possible loan losses; (9) extend credit to insiders only in accordance with all applicable laws, rules, and regulations; (10) adopt and implement policies for the disposition of property obtained through foreclosure or in satisfaction of debts previously contracted; (11) maintain primary capital equal to 7 percent of total assets and submit a written capital plan; (12) develop a written profit plan; (13) adopt a funds management policy; (14) correct violations of 12 USC 84; (15) correct all other violations of law; (16) correct consumer violations; (17) implement a written internal audit program; (18) correct internal control deficiencies; and (19) submit progress reports.

86. Federal agency of bank with assets of $100 to $250 million

The subject is a foreign bank doing business in this country through a federal agency chartered by this Office. The agency had no asset quality problems, but was operating with inadequately defined goals, policies and procedures, and with inadequate supervision at the local or head office level. In addition, the agency had experienced a complete breakdown in internal accounting systems and was cited for several violations of law.

A Formal Agreement was entered into with the foreign bank parent of the federal agency. Pursuant to the Agreement, the parent was to review the adequacy of the agency's management, increase its supervision of the agency, employ outside professional assistance to [illegible] the accuracy of the agency's accounts, ensure [illegible] violations of law, ensure [illegible] goals and budgets, [illegible] of the cited [illegible]

87. Bank with assets of $50 to $100 million

An examination of the bank revealed a large increase of criticized assets, inadequate supervision by management and the board, an absence of policies and procedures, a large volume of credit exceptions, a lack of an effective collection policy, marginal earnings, a lack of capital growth, high dividend payout and a funding imbalance.

A Formal Agreement was entered into which required the bank to: (1) review and amend its lending policy; (2) implement a program to eliminate criticized assets; (3) improve collection efforts; (4) implement a formal loan review system; (5) review the adequacy of its allowance for possible loan losses quarterly; (6) obtain and maintain current and satisfactory credit information; (7) develop a program to improve its earnings; (8) revise its 3-year capital plan; (9) develop a funds management policy; (10) study the adequacy of its management and its future management needs; (11) hire a competent and independent internal auditor; and (12) correct each cited violation of law and adopt procedures to prevent recurrence. The Agreement also prohibited the bank from paying any dividends without the prior approval of the regional administrator.

88. Bank with assets of $100 to $250 million

An examination revealed the bank to be in critical condition as the result of rapid loan portfolio growth, inadequate supervision of lending personnel, noncompliance with lending policies, and a heavy reliance on the oil and gas industry. The losses identified during the examination almost wiped out the bank's capital, necessitating immediate supervisory action.

A Notice of Charges and a Temporary Order to Cease and Desist were issued against the bank. The Temporary Order required the immediate injection of $10 million in equity capital and prohibited the repurchase of loan participations which the bank was not legally obligated to repurchase.

89. Bank with assets of more than $1 billion

An examination of the bank revealed a deteriorated condition due primarily to weak credit administration and poor management. The bank's problems included a heavy volume of criticized assets and delinquent loans, an inadequate allowance for possible loan losses, poor earnings, and a liberal dividend policy. Although capital was deemed adequate for the time being, it was threatened by those problems.

A Formal Agreement was entered into which required the bank to: (1) evaluate the quality of its management; (2) revise its funds management policy; (3)

review and revise its lending policies, (4) implement a program for eliminating the basis for its criticized assets, (5) obtain and maintain current and satisfactory credit information and collateral documentation, (6) improve its collection efforts, (7) review the adequacy of its allowance for possible loan losses at least quarterly, (8) establish a written program for improving earnings, (9) prepare an analysis of its capital needs and a 3-year capital plan, and (10) establish a long range strategic plan. The Agreement also required 30 days prior notice for the payment of dividends, and the correction of all violations cited in the trust report of examination. The trust report specifically required reimbursement to a trust fund by the bank for a $75,000 loss resulting from an illegal investment.

### 90. Bank with assets of $50 to $100 million

A recent examination revealed violations of law and excessive criticized assets. The bank had departed from its own lending policies on several occasions and needed to improve collection efforts. The allowance for possible loan losses was not periodically reviewed or kept at adequate levels.

A Memorandum of Understanding required the bank to adopt procedures to prevent the recurrence of violations of law. The bank's board of directors was to adopt and implement a written program to eliminate the grounds for criticism of the loans cited in the report of examination. Restrictions were placed on the lending of additional money or the renewing of loans to criticized borrowers. The board was required to adopt a written program to improve collection efforts and to reduce delinquent loans. The board was also required to ensure that established lending policies of the bank were adhered to at all times. The allowance for possible loan losses was to be reviewed quarterly and maintained at a level commensurate with the risk inherent in the bank's loan portfolio.

### 91. Bank with assets of $25 to $50 million

A recent examination revealed that the bank had an excessive volume of criticized assets and several violations of law, including 12 USC 84. Several credit information deficiencies were noted and the bank's lending policy needed to be revised. The bank lacked a loan review system to properly identify and categorize problem credits and its allowance for possible loan losses was not reviewed periodically and adjusted appropriately. No written policy was present on funds management and the bank needed an earnings program and budget. In addition, the bank was operating with inadequate capital. Financial records and existing audit reviews were lacking and the bank had no established internal audit policy for an independent internal audit. Internal control deficiencies existed. The consumer compliance function of the bank was in need of more attention. The Board of Directors needed to become more involved in the business development of the bank.

A Formal Agreement required the bank to correct all violations of law specifically including those involving 12 USC 84. The board of directors was to adopt and implement a written program to eliminate the grounds for criticism of the assets cited in the examination report and to restrict lending additional money or renewing existing loans to criticized borrowers. Credit information deficiencies were required to be corrected, a loan policy was to be established within 60 days and quarterly reviews of the adequacy of the allowance for possible loan losses were to be undertaken. A funds management policy was to be written and implemented and an earnings program developed. A capital program covering the next 5 years was to be established, with an immediate goal of achieving primary capital equal to 7 percent of total assets within 1 year. An independent certified public accountant was to be hired to audit the bank, render an opinion, and provide a written report. An internal audit policy was to be devised which required independent bank personnel to perform internal audits. Internal control deficiencies were to be corrected. The duties and responsibilities of the bank's consumer compliance officer were to be reviewed within 90 days to determine the adequacy of the individual's training and the time available to ensure compliance with the consumer laws. A written program to get the directors involved in business development was to be formulated.

### 92. Bank with assets of less than $25 million

An examination in early 1983 found the bank's overall condition unsatisfactory. The volume of classified assets had increased from the previous examination and was considered excessive. The excessive classified assets were the result of depressed economic conditions and inadequate loan supervision. Loan losses identified during the examination had depleted the allowance for possible loan losses, and a large additional provision was required to bring the allowance to an adequate level. Earnings, which had historically been good, were adversely impacted by the provision but were expected to remain adequate. Capital was considered satisfactory. Internal controls and internal/external audit activities were unsatisfactory. One violation each of 12 USC 84, 371c, 371a, and 375b was cited.

A Formal Agreement executed with the board of directors required (1) revision of written loan policy, (2) adoption of an adequate system to ensure that adequate credit information is obtained and analyzed on all borrowers, (3) a written program to improve

remove each classified asset from that status; (4) development of procedures to ensure that loans of questionable collectibility are placed in nonaccrual status; (5) review and amend the bank's internal loan review system to provide more timely identification of problem credits; (6) maintenance of the allowance for possible loan losses at an acceptable level; (7) adoption of acceptable asset liability management policies; (8) adoption of a comprehensive written investment policy; (9) correction of internal control exceptions, and establishment of procedures to prevent recurrence; (10) a written audit program; and (11) correction of violations of consumer compliance laws.

### 93. Bank with assets of less than $25 million

A specialized examination revealed significant deterioration in asset quality: classified assets had tripled since the previous examination. Poor loan administration was the primary cause for the increase. As a result, the bank was expected to suffer a loss in 1982. Deteriorating net interest margins resulting from weak funds management practices had contributed to the decrease in earnings. Despite those adverse situations, capital, at 10.48 percent of total assets, remained adequate. The examination revealed three violations of 12 USC 84 and three violations of 12 CFR 215.

A Formal Agreement entered into with the bank required the board to: (1) employ a new, capable lending officer; (2) prepare a written analysis of the bank's management needs and ensure that those needs are filled; (3) adopt a comprehensive loan policy and ensure that the bank complies with it; (4) develop a written program designed to remove each criticized asset from that status; (5) certify the reasons for extending additional credit to borrowers whose loans have been criticized; (6) review and amend the internal loan review system to ensure timely identification of problem loans; (7) develop written guidelines outlining the duties of the discount committee and ensure that the committee meets regularly; (8) take action to ensure that delinquent loans are kept to a minimum; (9) obtain current and satisfactory credit information and extend no additional credit on specific loans until such information is obtained; (10) conduct quarterly reviews of the allowance for possible loan losses, and make appropriate adjustments at least quarterly; (11) prepare a written program to improve and sustain the bank's earnings; (12) develop a written funds management policy; (13) correct all violations of law; and (14) develop a consumer compliance program.

### 94. Bank with assets of less than $25 million

A [illegible] revealed a significant deterioration [illegible] with classified assets increasing from 13 to 125 percent of gross capital funds. Weak administration and supervision of the loan portfolio, along with poor economic conditions in this agriculture-oriented community, were behind the increase. Loan losses had reduced primary capital to an inadequate level of 6.7 percent of assets. Those losses were expected to adversely affect 1983 earnings. In addition, poor funds management practices were expected to strain net interest margins. Bank management had not monitored and controlled the bank's rate-sensitivity position. As a result, the bank was in a highly asset-sensitive position with rate-sensitive assets of 2.44 times rate-sensitive liabilities at 6 months. The examination also revealed numerous violations of 12 USC 84 and a substantial violation of Regulation B.

A Formal Agreement required the board to: (1) develop a written program to remove each criticized asset from that status; (2) certify the reasons for extending additional credit to borrowers whose loans have been criticized; (3) obtain current and satisfactory credit information for each loan; (4) prohibit additional advances to customers until current and satisfactory credit information is obtained and analyzed; (5) minimize delinquent installment loans; (6) establish a system to identify and report to the board all loans which do not conform with bank policy; (7) review and amend the internal loan review system designed to identify problem loans; (8) review the allowance for possible loan losses and make appropriate adjustments at least quarterly; (9) develop a written funds management policy; (10) develop a capital plan to ensure that the bank will reach and maintain primary capital equal to 7 percent of assets; (11) prohibit the payment of dividends, unless prior approval is given by the regional administrator; and (12) institute procedures to correct all violations of 12 USC 84 and prevent such violations in the future.

### 95. Bank with assets of less than $25 million

A specialized examination revealed that the overall condition of the bank had deteriorated. Classified assets had increased from 42 to 61 percent of gross capital funds. Liberal lending policies and poor economic conditions were responsible for that increase. Earnings had been insufficient to maintain adequate capital. Narrow interest margins and loan losses were cited as reasons for the decline in income. Primary capital, at 6.2 percent of assets, was inadequate. The examination also revealed a number of violations of 12 USC 84 and two violations of 12 CFR 215.4. Technical errors were the primary reason for these violations and, thus, they did not represent a serious problem.

A Formal Agreement required the board to: (1) achieve a level of primary capital of at least 7 percent

of assets, and develop a program to ensure that level is maintained, (2) develop a written plan to improve bank earnings, (3) develop a plan to remove each criticized asset from that status; (4) certify the reasons for any additional extensions of credit to borrowers whose loans have been criticized, (5) conduct reviews of the allowance for possible loan losses and make appropriate adjustments at least quarterly; (6) adopt a funds management policy; and (7) analyze the bank's management needs and ensure that all officer positions are filled with qualified individuals.

### 96. Bank with assets of less than $25 million

A specialized examination revealed an incredible increase in classified assets. Total classified assets jumped from 13 to 162 percent of gross capital funds. Unsound lending practices, ineffective loan supervision, and a decline in economic conditions were cited as the primary causes of that increase. Increased loan losses had adversely affected earnings and capital. The bank had registered an $80,000 loss in 1982, and primary capital had been reduced to 7.8 percent of assets by the end of the examination. The examination also revealed numerous violations of 12 USC 84.

A Formal Agreement required the board to: (1) correct all violations of 12 USC 84, and develop procedures to prevent recurrence of such violations; (2) complete a written analysis of management needs, and ensure that each officer position is filled by a qualified individual; (3) develop a written program to remove each criticized asset from that status; (4) certify the reasons for extending additional credit to borrowers whose loans have been criticized; (5) develop a comprehensive written loan policy; (6) appoint a discount committee; (7) obtain current and satisfactory credit information for all loans; (8) prohibit the renewal or extension of any loan, unless such action is in the best interest of the bank and is specifically approved by the board; (9) adopt a policy outlining when renewals or extensions may be approved; (10) establish policies and procedures governing delinquent and nonaccrual loans; (11) develop an effective system to identify problem loans on a timely basis; (12) immediately increase the allowance for possible loan losses to an acceptable level; (13) analyze the adequacy of the allowance for possible loan losses at least quarterly; (14) correct each violation of law or regulation cited in the consumer affairs report; (15) develop a consumer compliance program; (16) ensure that the bank's compliance officer receives the appropriate training to complete his/her duties; and (17) correct audit deficiencies noted in the electronic data processing report. In addition, a civil money penalty referral with regard to the violations of 12 USC 84 was initiated.

### 97. Bank with assets of less than $25 million

Two specialized examinations in 1982 revealed significant increases in the volume of classified assets, especially in the doubtful and loss categories. These asset quality problems were the result of depressed local economic conditions and improper supervision by management and the board. The high volume of loan losses had resulted in earnings problems. Ineffective funds management practices also had contributed to the deterioration. Although there were sufficient sources of liquid funds, net interest margins were considerably below average. Primary capital, at 9.25 percent of assets, was considered adequate. One violation of 12 USC 84 was cited.

A Formal Agreement was executed which required the board to: (1) develop and implement a written program designed to remove each criticized asset from that status; (2) take action to obtain current and satisfactory credit information; (3) institute procedures to ensure that past-due paper is kept at a minimum; (4) develop a program to improve profitability; (5) implement written funds management guidelines; (6) complete a written analysis of the bank's management needs; (7) ensure that all management needs are filled by qualified individuals; (8) review the adequacy of, and make appropriate adjustments to, the allowance for possible loan losses at least quarterly; (9) correct internal control deficiencies noted in the report of examination and adopt procedures to prevent the recurrence of such exceptions; (10) develop procedures to ensure compliance with consumer laws and regulations; (11) refrain from advancing additional credit to any borrower whose loan has been criticized, unless failure to extend additional credit would be substantially detrimental to the best interest of the bank; and (12) refrain from granting new loans, renewals, or extensions until the bank has obtained and analyzed current and satisfactory credit information.

### 98. Bank with assets of $50 to $100 million

A general examination performed in 1982 disclosed a significant deterioration in the bank's condition. Primary problems noted were an excessive volume of classified assets, lack of adequate supervision by management and the board of directors, and adverse earnings and capital trends. Classified assets had doubled since the previous examination, and the increase was attributed to weak supervision as well as poor economic conditions. The allowance for possible loan losses was considered inadequate. Earnings were considered satisfactory but had declined in each of the past 2 years. Declining interest margins, attributed to the bank's poor funds management practices, were the primary cause of the adverse earnings trend. Capital ratios were adequate but declining as a [illegible]

[illegible]

[illegible] with the board of [illegible] of the bank's management [illegible] (2) a written program designed to remove each criticized asset from that status, (3) an [illegible] identification system, (4) procedures to ensure that past due paper is maintained at an acceptable level and that renewals are granted only in justifiable instances, (5) a system to ensure that adequate information is obtained and analyzed on all borrowers, (6) procedures to ensure that loan officers adhere to the lending policy, (7) procedures to ensure that an adequate allowance for possible loan losses is maintained, (8) acceptable assetliability management policies and procedures, (9) realistic earnings goals, operating plans, and detailed budgets for fiscal 1983 and 1984, (10) a comprehensive capital plan to ensure that a satisfactory level of capital is maintained, (11) prior approval of all dividends by the regional administrator, (12) revision of the bank's limited and outdated investment policy, (13) procedures to provide for the regular pricing of the investment account, (14) correction of existing violations of banking statutes, and the establishment of procedures to ensure that future violations do not occur, (15) correction of internal control deficiencies, and (16) action to correct deficiencies in the electronic data processing area.

99. Bank with assets of $50 to $100 million

Two consecutive examinations revealed a significant deterioration in asset quality; classified assets had increased four-fold. Aggressive lending philosophies, weak loan administration, and poor economic conditions were reasons for the deterioration. Severe loan losses and an increase in nonearning assets had resulted in substantial operating losses and were expected to jeopardize future earnings. Those losses resulted in a marginal capital position. The examination also revealed one violation of 12 USC 84.

A Formal Agreement required the board to: (1) analyze management needs and ensure that all officer positions are filled with capable individuals, (2) develop a written program to remove each criticized asset from that status, (3) certify the reasons for any additional extension of credit to borrowers whose loans [illegible] (4) develop operating procedures [illegible] with the loan policy, (5) [illegible] review system to [illegible] (6) [illegible] (7) [illegible] (8) [illegible] (9) [illegible] written analysis and projection of capital needs, and a program to maintain primary capital equal to at least 7 percent of assets, (10) correct all violations of law cited in the report of examination, (11) take action to correct all deficiencies noted in the trust report of examination, and (12) establish a committee to monitor compliance with the Agreement. A civil money penalty referral with regard to the violation of 12 USC 84 has been initiated.

100. Bank with assets of $100 to $250 million

A specialized examination revealed a deteriorating level of asset quality and a high level of classified assets. Weaknesses in loan administration and declining economic conditions were reasons for this deterioration. Lending administration was fragmented by the lack of a capable senior lending officer. Earnings and capital remained adequate, however, there was concern that continued deterioration in the loan portfolio could adversely affect those areas. The examination also revealed one violation of 12 USC 371c.

A Memorandum of Understanding required the board to: (1) provide a new, capable senior lending officer, (2) review and amend the internal loan review system to ensure proper identification of problem loans, (3) develop a written program to remove each criticized loan from that status, (4) certify the reasons for extending additional credit to borrowers whose loans had been criticized, (5) develop an analysis of projected capital needs through 1985, and (6) implement procedures to prevent future violations of 12 USC 371c.

101. Bank with assets of $50 to $100 million

A specialized examination revealed a significant deterioration in asset quality; classified assets had increased four-fold since the previous examination. Aggressive lending practices and a decline in the economy had contributed to the increase in criticized loans. Despite an increase in loan losses, earnings and capital remained adequate.

A Memorandum of Understanding required the board to develop a written program to remove each criticized asset from that status, certify the reasons for extending additional credit to criticized borrowers, establish procedures to ensure that current and satisfactory information is obtained for all loans, and review and amend the internal loan review system to ensure proper identification of problem loans.

102. Bank with assets of $50 to $100 million

A specialized examination revealed significant deterioration in asset quality, with classified assets increasing dramatically. Weak loan administration, policy violations, and deterioration in the local economy were

the primary factors behind the decline. The examination also had revealed an excessive number of violations of law and a high percentage of loans not supported by current credit information. Earnings and capital had remained satisfactory despite the loan loss provisions and income reversals required during the examination.

A Formal Agreement required the board to: (1) establish a committee to ensure adherence to the provisions of the Agreement, (2) review and revise the bank's written loan policy and ensure that the bank adheres to the revised policy; (3) develop a written program for eliminating each criticized asset from that status; (4) certify the reasons for extending additional credit to borrowers whose loans have been criticized; (5) obtain current and satisfactory credit information for all loans; (6) implement procedures to ensure that no new extensions of credit are granted until the bank has obtained and analyzed current and satisfactory credit information; (7) review and amend the internal loan review system to ensure timely identification of problem loans; (8) complete a written analysis of current management and staffing needs; (9) immediately correct each violation of 12 USC 84 cited in the report of examination and develop procedures to ensure compliance in the future; (10) conduct reviews of the allowance for possible loan losses and make appropriate adjustments at least quarterly; and (11) correct all deficiencies noted in the electronic data processing report of examination. In addition, a civil money penalty referral regarding the violations of 12 USC 84 has been initiated.

### 103. Bank with assets of less than $25 million

The examination conducted in 1982 disclosed significant deterioration in the quality of assets. Classified assets had tripled since the previous examination. Loan supervision was considered weak. Overdue loans were excessive and the allowance for possible loan losses was considered only marginally adequate because of economic conditions and the large volume of loans classified doubtful. Earnings performance had been adequate; however, the large provision for loan losses made during the examination and the reversal of accrued interest exceeded year-to-date income. Two violations of 12 USC 84 were also cited.

A Formal Agreement entered into with the board of directors required: (1) development and implementation of a written program designed to remove each classified asset from that status, (2) revision of the written loan policy to incorporate provisions addressing non-accrual loans and conditions for rewriting delinquent consumer loans, (3) implementation of an acceptable system to ensure adequate credit information is obtained and analyzed on all borrowers, (4) written procedures for effective collection of delinquent loans, (5) procedures to ensure removal of non-performing loans from accrual status on a timely basis; (6) maintenance of the allowance for possible loan losses at an acceptable level, not less than 1 percent of total loans, and evaluate quarterly the reserve adequacy, reflecting the adjusted balance in the quarterly report of condition; (7) establish realistic earnings goals, operating plans and detailed budgets for fiscal 1983 and annually thereafter; (8) development of a comprehensive capital plan to ensure a satisfactory level of capital, and (9) correction of violations of 12 USC 84.

### 104. Bank with assets of $100 to $250 million

A specialized examination conducted in late 1982 reflected continuing problems in the loan area and high classified assets. Problems in the loan portfolio were attributed to poor credit selection, ineffective loan administration, and weak collection efforts. The lending staff was inadequate in size and experience. Earnings had continued a steady downward trend since 1979 largely as a result of inadequate net interest margins, steadily climbing overhead expenses, and large loan losses. The bank's capital position was considered only marginally adequate in view of the large volume of loans classified doubtful. The examination revealed one violation each of 12 USC 29, 84, 375a, and 375b.

A Formal Agreement executed with the board of directors required: (1) a written program designed to remove each criticized asset from that status, (2) an analysis of the bank's management needs, (3) realistic earnings goals, operating plans, and detailed budgets; (4) a comprehensive capital plan, including dividend payouts; (5) at least quarterly reviews of the adequacy of the reserve for possible loan losses, (6) procedures to ensure that satisfactory credit information is obtained and analyzed; (7) increased efforts to collect previously charged-off loans, and (8) procedures to ensure that future violations of the banking statutes do not occur.

### 105. Bank with assets of $50 to $100 million

As one of several affiliated banks, this bank's problems included excessive concentrations of loan participations and out-of-territory real estate loans. Violations of law included violations of 12 USC 84. Criticized assets were excessive and the bank needed to establish an internal loan review system. The bank's liquidity position was inadequate and its investment program needed analysis and review.

A Formal Agreement required the bank to [illegible] take all necessary steps to correct [illegible] law

[illegible] was to review and revise its loan policy and to include, as part of its revised policy, a definition of the geographical boundaries of its trade area and the standards to be met prior to making any out-of-area loans. As part of its revised loan policy, the bank also was required to devise and adopt guidelines and limitations on concentrations of credit. A detailed list of standards to be met before the bank could acquire any loan or other asset from any affiliate was established. A written program to remove criticized assets of $75,000 or more was called for and restrictions were placed on lending additional money or renewing loans involving criticized borrowers. The development of a written liquidity and asset and liability management policy was required, along with a comprehensive written investment policy. A compliance committee was established.

### 106. Bank with assets of $25 to $50 million

A specialized examination conducted in late 1982 disclosed deterioration in asset quality, classified assets equalled 48 percent of gross capital funds. Earnings declined significantly in 1982 because of below average net interest margins and high non-interest expense. Annualized return on assets was .01 percent after security losses of $175,000. Capital remained adequate. Bank personnel had little or no understanding of funds management principles and the bank had been unable to attract and retain qualified executive management because of difficulties with the bank's owner.

A Formal Agreement executed with the board of directors required: (1) the hiring of a senior lending officer, (2) an analysis of staffing needs, qualifications of present staff, and staff compensation levels, (3) a written plan to remove criticized assets from that status, (4) limits on extensions of credit to previously criticized borrowers without board authorization, (5) maintenance of adequate financial and other credit information, (6) establishment of a loan review system, and (7) adoption of a plan to improve and sustain earnings performance.

### 107. Bank with assets of less than $25 million

A specialized examination conducted in late 1982 disclosed a significant deterioration in the condition of the bank. This was attributed to insufficient supervision by management and the board of directors. The [illegible] of classified assets had doubled since the previous examination. Large loan loss provisions, a [illegible] interest margin, and high occupancy [illegible] earnings. Capital was [illegible]. Owners of the bank had, in the past, [illegible].

A Formal Agreement executed with the board of directors required: (1) a new, capable senior lending officer, (2) an analysis of the bank's management needs; (3) a written program designed to remove each criticized asset from that status, (4) a comprehensive written loan policy to include guidelines for loans to insiders of this and other banks, (5) the maintenance and analysis of satisfactory credit information, (6) effective collection procedures, (7) an adequate problem loan review system, (8) quarterly reviews of the adequacy of the reserve for possible loan losses, (9) a program for improving the profitability of the bank, (10) an effective asset and liability management program, (11) correction of internal control deficiencies, (12) an acceptable internal audit program, and (13) correction of all violations of laws and regulations.

### 108. Bank with assets of $25 to $50 million

A specialized examination found a decline in asset quality, with classified assets doubling since the previous examination. Loans identified as loss had increased from $9,000 to $172,000. Ineffective loan administration and poor economic conditions were considered the primary reasons for the deterioration. Despite the increased loan losses, earnings were expected to remain acceptable. Primary capital had remained adequate and funds management practices had been effective. The examination revealed two violations of 12 CFR 215.4.

A Memorandum of Understanding required the board to: (1) develop a written program to remove each criticized asset from that status, (2) certify the reasons for extending additional credit to borrowers whose loans had been criticized, (3) institute operating procedures to ensure compliance with the bank's lending policy, (4) ensure that the discount committee functions effectively, (5) review and amend the internal loan review system to ensure prompt identification of problem loans, (6) establish procedures to ensure that no new loans are made until current and satisfactory credit information is obtained and analyzed, and (7) take steps to ensure that lending officers establish realistic repayment programs when extending credit.

### 109. Bank with assets of $25 to $50 million

A specialized examination conducted in late 1982 disclosed that the bank was in unsatisfactory condition. Asset quality had declined to an unacceptable level, classified assets had almost doubled, and loan administration was considered unsatisfactory. Past due loans were excessive. Earnings to date were negligible because of a large loss taken on an insider transaction and the bank's low interest margins. Funds management procedures were considered inadequate. Despite the bank's historic low earnings, its

capital position had remained satisfactory due to limited growth in assets and minimal dividend payments.

A Formal Agreement executed with the board of directors required: (1) employment of a competent senior lending officer; (2) review and amendment of the written lending policy; (3) development and implementation of a written program designed to remove each classified asset from that status; (4) adoption and implementation of written procedures for identification, review, and collection of delinquent loans; (5) implementation of procedures to ensure removal of non-performing loans from accrual status; (6) increase of the reserve for possible loan losses to at least 1.5 percent of total loans; (7) correction of existing violations of law and establishment of procedures to ensure against future violations; (8) correction of internal control deficiencies; (9) institution of a program to improve and sustain the bank's profitability; (10) revision of the investment policy; and (11) correction of electronic data processing deficiencies. Civil money penalty referrals were also made.

110. Bank with assets of less than $25 million

An examination found significant problems in the consumer compliance area. Twenty-seven violations of consumer laws were noted, 13 of which involve substantive provisions of consumer legislation and 10 of which were repeated from the previous examination. Additional problems were identified in the commercial area. Classified assets had increased from 15 percent of gross capital funds at the previous examination to 46 percent. Increased loan losses had reduced the reserve for possible loan losses to an inadequate level. Earnings had historically been low because of inadequate interest margins. Capital, however, was adequate. Four violations of 12 USC 84 and one violation of 12 CFR 215 were cited.

A Formal Agreement executed with the board of directors required: (1) a consumer compliance program designed to ensure that the bank operates in compliance with all consumer protection legislation; (2) a written program designed to remove each criticized asset from that status; (3) an effective problem loan identification system; (4) a sound lending policy with procedures to ensure that it is adhered to by the loan officers; (5) an acceptable system to ensure that adequate credit information is obtained and analyzed on all borrowers; (6) effective procedures to ensure that past-due paper is maintained at an acceptable level, and that extensions are granted only in justifiable instances; (7) increase of the reserve for possible loan losses to an adequate level, and quarterly reviews to ensure its adequacy; (8) correction of internal control deficiencies; (9) procedures to ensure that future violations of the banking statutes do not occur; (10) actions to correct deficiencies in the electronic data processing area; and (11) procedures to make certain all trust accounts are reviewed within 90 days and that other deficiencies are corrected.

111. Bank with assets of $50 to $100 million

A specialized examination revealed a significant deterioration in the quality of the loan portfolio. Total classified assets were high and included $429,000 considered doubtful and $792,000 listed as loss. These problems were attributed to inadequate staffing in the lending area, overall weak loan administration and deteriorating economic conditions. Despite the declining asset quality and large losses, earnings continued to be good. Total capital equal to 10.27 percent of assets was considered adequate. The examination had revealed violations of 12 USC 84 and 12 USC 29.

A Memorandum of Understanding required that the board: (1) employ a qualified senior lending officer; (2) complete an analysis of the bank's management needs, and ensure they are filled; (3) develop a written program designed to remove each criticized asset of $100,000 or more from that status; (4) allow no additional extensions to borrowers whose loans are criticized, unless failure to lend additional funds would be detrimental to the best interests of the bank; (5) implement an effective problem loan identification system; (6) ensure that current and satisfactory credit information is obtained for all extensions of credit; (7) obtain proper collateral documentation for appropriate loans; (8) develop a system to ensure that the bank does not extend credit without first obtaining and analyzing current credit information and proper collateral documentation; (9) increase the reserve for possible loan losses to an adequate amount, and review its adequacy at least quarterly; (10) take immediate action to correct violations noted in the consumer affairs report of examination; and (11) institute procedures to ensure full compliance with existing board policies.

112. Bank with assets of less than $25 million

A specialized examination conducted in 1982 disclosed a lack of management prudence and depth and a significant deterioration in asset quality. The bank had returned to questionable lending practices involving loan growth and out-of-territory lending which had been the primary focus of a Formal Agreement under which the bank operated from 1980 to 1981. Classified assets had tripled since the previous examination. That deterioration was attributed to the impact of adverse economic circumstances on the bank's oil related borrowers, depressed agricultural conditions, and the sizable volume of loans [illegible]

the bank's trade territory. The large volume of participations in classified loans sold was also of concern. Capital, earnings, and liquidity were all adequate, but potential losses were expected to have an adverse impact. Three violations of 12 USC 84 were cited.

A Formal Agreement executed with the board of directors required: (1) development and implementation of a written program designed to remove each criticized asset from that status; (2) review and amendment of the written lending policy to include provisions for identifying and monitoring concentrations to ensure compliance with legal lending limits, establishing a permissible level of out-of-territory lending, and detailing the type and quality of documentation required, as well as individual and aggregate limits for participations purchased and sold; (3) implementation of an acceptable system to ensure adequate credit information is obtained and analyzed on all borrowers; (4) maintenance of the allowance for possible loan losses at an acceptable level, not less than 1 percent of total loans, with formal evaluations of the reserve's adequacy at least quarterly and the adjusted balance reflected in the quarterly reports of condition; (5) establishment of acceptable asset/liability management policies and procedures; (6) realistic earnings goals, operating plans, and detailed budgets for fiscal 1983 and each year thereafter; (7) development of a comprehensive capital plan to ensure satisfactory capital is maintained; (8) a review of the bank's management and evaluation of the present loan officer staff; (9) the hiring of a capable senior loan officer; and (10) correction of all violations of 12 USC 84.

### 113. Bank with assets of $50 to $100 million

A specialized examination revealed a significant deterioration in asset quality. Total classified assets had increased dramatically, with $951,000 identified as loss. Overly aggressive loan policies and poor credit administration had caused that increased risk. Specific weaknesses included an over-reliance on collateral to repay debt, poor problem loan identification, failure to identify sources of repayment, and weak collection efforts. Both earnings and capital were considered marginal as a result of the increased loan losses. Earnings for 1982 were well below peer group averages and precluded capital from keeping pace with asset growth. Primary capital equalled 7.01 percent of total assets.

A Formal Agreement required the board to: (1) complete an analysis of the bank's management needs and ensure that each officer position was filled with a [illegible] a comprehensive written [illegible] to ensure that the [illegible] that all out-of-[illegible] (4) review and amend the internal loan review system to ensure prompt identification of problem loans; (5) develop a written program to remove each criticized asset from that status; (6) certify the reasons for extending additional credit to borrowers whose loans have been criticized; (7) ensure that no new loans are made until the bank receives and analyzes current satisfactory credit information; (8) develop written procedures governing identification, review, and collection of delinquent loans; (9) immediately increase the allowance for possible loan losses and review it quarterly to ensure that it remains adequate; (10) establish a written funds management policy; (11) prepare a written program to improve earnings; (12) pay no dividends without approval of the regional administrator; (13) analyze the bank's capital needs and develop a program to ensure that primary capital remains above 7 percent of assets; and (14) develop specific measures to correct deficiencies noted in the electronic data processing report of examination.

### 114. Bank with assets of $25 to $50 million

A specialized examination in late 1982 disclosed the bank to be in unsatisfactory condition. Classified assets were high and had increased since the previous examination. The loan problems had been caused by liberal lending policies and the depressed agricultural economy. Large loan losses necessitated a $300,000 provision to the reserve for possible loan losses, which exceeded year-to-date earnings. Historically, earnings had been satisfactory. Capital was considered only marginally adequate because of the inordinate volume of poor quality assets.

A Formal Agreement executed with the board of directors required: (1) a written program designed to remove each criticized asset from that status; (2) strengthening of the present lending policy and implementation of procedures to ensure management adheres to its provisions; (3) quarterly reviews of the adequacy of the reserve for possible loan losses; (4) a comprehensive capital plan to ensure satisfactory capital is maintained, which should specifically address dividends; and (5) a formal problem loan identification system.

### 115. Bank with assets of less than $25 million

A specialized examination conducted in 1982 disclosed that the bank was in unsatisfactory condition. Criticized assets had risen to an unacceptable level. The reserve for possible loan losses had been augmented to reach 8 percent of total loans, but remained inadequate. Earnings had been depleted by the need for additional loan loss provisions and would equal only .35 percent of return on assets in 1982. Funds management practices were weak. Primary

capital was only marginal, at 7.85 percent of total assets, because of the bank's asset quality, rapid growth pattern, poor earnings, and minimal earnings retention history. Seventeen violations of 12 USC 84, and one violation each of 12 USC 60, 73, and 375(a), 12 CFR 215 and 211, and 31 CFR 103 were cited.

A Formal Agreement executed with the board of directors required: (1) compliance with all banking statutes, correction of outstanding violations, and implementation of preventive procedures; (2) development of a loan plan to remove each criticized asset from its criticized status; (3) development of a delinquent loan program; (4) development of loan policy compliance and monitoring procedures; (5) maintenance of adequate credit information and appropriate collateral documentation; (6) revision and implementation of an effective internal loan review and problem loan identification system; (7) maintenance of an adequate reserve for loan losses and a review program; (8) development of a funds management program; (9) development of an earnings plan and an annual budget; (10) development of a capital plan and maintenance of adequate capital; (11) development of internal audit and internal control programs; and (12) a study of staff needs and the employment of adequate personnel.

### 116. Bank with assets of $50 to $75 million

A specialized examination conducted in mid-1982 reflected significant deterioration in asset quality. Classified assets had doubled since the previous examination. Problems were attributed to a lack of leadership strength at the senior management level and ineffective supervision by the board of directors. Sound written loan and funds management policies were in place; however, they were not being adhered to. Earnings were down somewhat, reflecting a decline in net interest margins. Capital was adequate.

A Formal Agreement executed with the board of directors required: (1) an analysis of the bank's management needs; (2) operating procedures to ensure full compliance with established written policies, particularly in the areas of lending and funds management; (3) development and implementation of a written program designed to remove all assets from criticized status; (4) implementation of an effective problem loan identification system; (5) reinstatement of budgeting procedures; and (6) procedures to ensure that interest is not accrued on loans of questionable collectibility.

### 117. Bank with assets of less than $25 million

An examination performed in late 1982 disclosed a deterioration in the condition of the bank. The volume of classified assets had more than tripled since the previous examination. Unfavorable agricultural conditions and an inadequate lending staff were noted as the primary causes of this increase. Earnings had been good and capital was considered adequate.

A Memorandum of Understanding executed with the board of directors required a written program designed to remove each classified asset from that status; an acceptable system to make certain that adequate credit information is obtained and analyzed on all borrowers; written procedures governing identification, review, and collection of delinquent loans, and procedures to ensure that interest is not added or accrued to loans when repayment is questionable.

### 118. Bank with assets of $25 to $50 million

A specialized examination conducted in early 1983 indicated an overall decline in the condition of the bank, attributed primarily to ineffective supervision by the bank's chief executive officer. Classified assets had more than doubled since the previous examination. Sizeable losses had been taken in the past few years, and there was potential for additional losses in oil- and gas-related credits. Poor loan quality continued to affect year-to-date earnings, with the required loan loss provision resulting in a net loss of $104,000. Primary capital was adequate, but had declined steadily over the past 5 years.

A Formal Agreement executed with the board of directors required: (1) an analysis of the bank's management needs, with emphasis on the lending area; (2) procedures to ensure that the lending officers adhere to the requirements of the bank's adopted lending policy; (3) a written program designed to remove each criticized asset from that status; (4) procedures to ensure that adequate credit information is obtained and analyzed on all borrowers; and (5) a comprehensive capital plan that specifically addresses the payment of dividends.

### 119. Bank with assets of $25 to $50 million

This bank had an inordinate level of classified and past-due credits, inadequate credit information, and several violations of law. There had been deterioration in the capital base. Management weaknesses were apparent. Poor net interest margins and large credit write-offs had negatively impacted the bank's earnings. Credit information and loan portfolio supervision were unsatisfactory and had contributed to significant deterioration in the overall condition of the bank.

A Memorandum of Understanding was entered into with the bank which required: (1) all violations of law to be corrected; (2) the bank's organizational and management structure to be evaluated and deterioration

addresses: (1) a written program to be implemented to improve the level of pastdue and criticized credits, (4) the lending policy to be reviewed, (5) a written policy governing all types of insider transactions to be formulated, (6) determination of the adequacy of the allowance for possible loan losses with satisfactory documentation, (7) elimination of collateral and credit file exceptions and action to improve and sustain the bank's earnings, and (8) a comprehensive capital plan.

### 120. Bank with assets of $100 to $250 million

A recent examination revealed a large jump in classified assets. The bank's loan administration program was in need of review and revision and the allowance for possible loan losses needed updating. The adequacy of the staffing of the bank's lending department was questionable, and the bank needed to improve its liquidity and capital adequacy. In addition, the bank's earnings were considered weak.

A Formal Agreement required the bank to review and revise its written loan administration program and to effect a program for eliminating the grounds upon which assets were criticized. The bank was to review and revise, as necessary, its allowance for possible loan losses and to evaluate the adequacy of lending department staff, implementing a plan to strengthen the department if necessary. A capital plan was called for and continued efforts to improve the bank's liquidity were directed. An earnings plan was to be developed within 90 days.

### 121. Bank with assets of $50 to $100 million

A recent examination revealed a deterioration in asset quality with classified assets doubling in amount. Following the examination, a complete management change took place. The duties and responsibilities of the officers were not clear and well defined lines of authority had not yet been established. The bank needed to address existing lending policy problems and reduce the level of criticized assets. Current and satisfactory credit information was lacking on many loans, and correction of several collateral exceptions was needed. Additionally, the bank had no financial and capital plan and needed to correct all violations of law, including several violations of 12 USC 84.

An Formal Agreement required the bank to conduct a management study and develop an organization chart and job descriptions for officer positions. The lending policy was to be reviewed and revised, and a program for eliminating the grounds of criticism on loans of [illegible] developed. A written policy [illegible] were properly [illegible] developed. The bank undertook to obtain, maintain, and analyze current and satisfactory credit information and to correct all collateral deficiencies. A 3-year capital plan was required. All violations of law were to be corrected, with specific attention to violations of 12 USC 84. In addition, a special counsel was to be engaged to investigate the legal responsibility of the directors for the losses stemming from the violations of 12 USC 84.

### 122. Bank with assets of $50 to $100 million

A recent examination determined that the bank had problems with the adequacy and capability of its officers and staff. An excessive amount of assets was classified. Credit information deficiencies existed along with several collateral exceptions for failure to obtain and perfect collateral documentation. The bank's lending policy was outdated and did not sufficiently address lending procedures. Undue concentrations of credit existed. The bank lacked a loan review program and had failed to identify problem credits at an early stage. Loan participations had been purchased or acquired without proper regard to the creditworthiness of the borrower or the quality of the original loan. The bank had failed to conduct quarterly reviews of the allowance for possible loan losses so that appropriate adjustments could be made and reflected in official reports. The bank's capital was below appropriate levels and needed to be augmented. A capital plan was needed. The bank had no budget plan and earnings had been adversely affected in recent years. The bank's computer operations were deficient in several regards. Violations of law existed, including violations of 12 USC 84. Loans had been made to businesses whose owners were partners with directors in other ventures. The relationships between the borrowers, the bank, and its directors was not clearly and explicitly documented, and the appearance of conflict of interest problems existed.

An Order to Cease and Desist was consented to which required the bank to study and evaluate management quality and depth and to develop a management plan. A written program eliminating the basis for criticism of assets criticized in the examination report was required. Credit information deficiencies and collateral exceptions were to be corrected and avoided in the future. The board was ordered to revise the bank's written lending policy to include, among other things, measures to correct lending procedures. Written policies were called for to eliminate and prevent the creation of undue concentrations. A loan review program was to be established. Participation loans without adequate credit review and analysis were curtailed and credit standards were to be identified for future participations. The board was required to conduct quarterly reviews of the allowance for possible loan losses. The bank was required to achieve and

maintain capital at a designated level and the board was directed to develop a 5-year capital plan. Because of the capital difficulties, dividends were restricted. A budget program was called for and the board was ordered to address the problems in the computer operation area. Violations of law were to be corrected immediately and violations of 12 USC 84 were specifically addressed. Finally, a written comprehensive code of ethics was to be adopted, considering possible insider violations and potential conflicts of interest.

### 123. Bank with assets of $25 to $50 million

Examination of the bank disclosed deterioration in its overall condition and continuing problems with insider activities. Classified and delinquent loans had increased sharply. Approximately 50 percent of the loans classified were to borrowers outside of the bank's defined trade area. Increases in the allowance for possible loan losses had adversely affected earnings. Retention of earnings was further hindered by an increasing dividend payout ratio. Two directors were discovered to have had overdrafts exceeding the limitations prescribed by Regulation O. The overdrafts to one of these directors also constituted a violation of 12 USC 84. The bank had previously operated under a Memorandum of Understanding, terminated in 1978, which addressed many of the same deficiencies.

An Order to Cease and Desist, to which the bank stipulated, required the bank to: (1) appoint a compliance committee; (2) correct violations of law; (3) implement a program to reduce its level of criticized assets; (4) extend no additional credit to any borrower whose extension of credit is criticized; (5) review and revise its lending policy; (6) implement a program to improve collection efforts; (7) correct all credit and collateral documentation exceptions, and not grant any new extensions of credit without obtaining and analyzing adequate credit information; (8) implement an internal loan review system; (9) eliminate and prevent undue concentrations of credit; (10) review and maintain an adequate allowance for possible loan losses; (11) maintain a primary capital equal to 7 percent of total assets; (12) develop a 3-year capital program; (13) restrict payment of dividends; (14) prepare a budget for 1983 and each subsequent year the Order is in effect; (15) adopt a funds management policy; (16) adopt an internal audit program; and (17) implement a consumer compliance program.

### 124. Bank with assets of $25 to $50 million

The most recent examination revealed non-compliance with an outstanding Agreement, significant problems in the lending area, numerous violations of law, an inadequate allowance for possible loan losses, poor earnings, an ineffective loan review and internal audit system, and uncorrected internal control deficiencies. Additionally, all of the bank's credit life insurance policies were being underwritten by an interest owned by the chairman of the board.

An Order to Cease and Desist required the bank to (1) appoint a compliance committee to monitor and ensure compliance with the articles of the existing Agreement; (2) correct all violations of 12 USC 371c and all other violations of law, rule, or regulation; (3) conduct a management study; (4) review and revise the existing loan policy; (5) adopt and implement a written program to eliminate the grounds for criticism on all criticized assets and cease making loans to borrowers holding criticized loans; (6) obtain and maintain current and satisfactory credit information and collateral documentation; (7) develop and implement a comprehensive policy addressing concentrations of credit; (8) improve collection efforts; (9) establish an adequate loan review system; (10) ensure that the allowance for possible loan losses is maintained at an adequate level; (11) revise its written 5-year capital plan; (12) maintain primary capital equal to at least 7 percent of total assets; (13) correct deficiencies in internal controls; (14) adopt and implement an adequate internal audit program; and (15) cease placing its credit life insurance with any insurance company in which any bank employee, official, director, or principal shareholder has an interest of more than 5 percent.

### 125. Bank with assets of $100 to $250 million

The recent examination revealed noncompliance with an outstanding Memorandum of Understanding as well as further deterioration in the bank's overall condition. Violations of law, inadequate capital, and an inadequate allowance for possible loan losses were also noted. In addition, the examination revealed a continuing increase in classified assets resulting from poor lending practices and inadequate management. Finally, earnings were poor, and the bank suffered an operating loss for 1982.

An Order to Cease and Desist required the bank to (1) appoint a compliance committee to monitor and ensure compliance with the Order; (2) cease extending credit in excess of 12 USC 84 lending limits and implement adequate policies and procedures to prevent future violations; (3) correct all present violations of 12 USC 84; (4) review the adequacy and competency of the bank's present managerial staff; (5) review and analyze the bank's earnings capacity and adopt a written profit program based on that study; (6) prepare a written analysis of the bank's capital needs and develop a written 3-year capital program; (7) implement a written program to eliminate the grounds for

[illegible] (9) review [illegible] procedures for monitoring delinquencies [illegible] improve present collection procedures [illegible] program to maintain an adequate allowance for possible loan losses (11) correct all collateral deficiencies and (12) restrict payment of dividends

126 Bank with assets of less than $25 million

The bank's ongoing solvency was in doubt Problems centered on management deficiencies and problem loans which led to substantial losses Loans classified doubtful and loss nearly equalled primary capital The potential for additional losses existed Several significant lending limit violations were discovered, all of which contained substantial loss

An Order to Cease and Desist to which the bank stipulated, required the bank to (1) cease making loans in violation of 12 USC 84 (2) correct all violations of law (3) prepare a written capital analysis, (4) restrict payment of dividends, (5) implement a program to deal with criticized assets, (6) cease making loans to borrowers whose extensions of credit are criticized, (7) appoint a senior administrative officer, (8) review and amend its written lending policies (9) implement a loan review system, (10) review and maintain an adequate allowance for possible loan losses (11) reduce delinquent loans and improve collection efforts, (12) obtain and maintain complete credit information and collateral documentation, (13) improve and strengthen its internal audit function, (14) put its investment policies in writing and (15) review and revise its asset liability policy

127. Bank with assets of $25 to $50 million

An examination revealed that the bank was not in compliance with a Formal Agreement and that capital was now critically inadequate Criticized assets had risen dramatically past-due loans and credit information exceptions were high and the bank's allowance for possible loan losses was inadequate Credit information exceptions equalled approximately 20 percent [illegible] Internal loan review procedures were [illegible] Lending policies and procedures [illegible] and repeat violations of 12 USC 84 [illegible] management practices [illegible] The bank relied heavily on rate [illegible] and secondary liquidity was made [illegible]

An Order to Cease and Desist to which the board stipulated required the board to [illegible] equity capital, the board was required to take appropriate steps to sell or merge the bank on or before another specified date Intensive detailed plans to achieve the requisite level of capital and alternative plans to cause the sale or merger of the bank were required to be submitted by the board to the appropriate Deputy Comptroller The Order also required correction of all violations of 12 USC 84 and establishment of procedures to prevent future violations Dividends were prohibited without the prior approval of the regional administrator The board was required to develop, and cause the bank to implement, an internal loan review system for the prompt identification and supervision of problem loans. The bank was required to correct credit information deficiencies and collateral exceptions The Order also required the bank to maintain the allowance for possible loan losses at an adequate level.

128. Bank with assets of $100 to $250 million

An examination disclosed significant deterioration in asset quality, primarily in real estate-related credits. Classified assets had increased dramatically. The high level of losses was compounded by an extremely low recovery rate A major reason for the deterioration in asset quality was the lack of an adequate, independent internal loan review system. The allowance for possible loan losses was inadequate to cover the losses and potential losses in the loan portfolio. Violations of 12 USC 84 were revealed, as were violations of 12 USC 24 and repeated, numerous violations of 12 CFR 7 3025 covering appraisals and management of other real estate owned Significant management turnover and unclear lines of authority and reporting responsibilities were major problems. Senior management lacked authority to carry out its functions The chairman of the board of directors was a dominant force in the day-to-day management of the bank Supervision by the entire directorate was weak The bank's liquidity and funds management practices and policies were inadequate. Deficiencies existed in the bank's audit function and in the consumer compliance area Subsequent to the examination, the bank hired a new president and chief executive officer

An Order to Cease and Desist, to which the board stipulated required a compliance committee to study bank management, management structure and staffing requirements and to submit a report of findings and recommendations to the entire board The board was required to adopt and implement a plan to address management and staffing deficiencies A collection policy and revision of the bank's lending policy and procedures to identify and control concentrations of credit were required The board was required to establish an independent loan review system and a system to ensure that other real estate owned is

managed in accordance with 12 CFR 7.3025. Independent appraisals of certain real property were required. The bank was required to maintain a minimum, specified level of primary capital. The board was required to maintain monthly assessments of the bank's liquidity and to take appropriate action to ensure adequate sources of liquidity for the bank. A revised asset and liability management program was required and the board was required to correct the deficiencies in the bank's audit program.

### 129. Bank with assets of $250 to $500 million

Examinations of this bank and others in its holding company system revealed deterioration centered in the loan portfolio. Expansion of the loan portfolio, particularly in the energy area during a period of national economic strain, was responsible for a large portion of the classifications in the portfolio. The expansion of the portfolio had been accomplished through the purchase of participations from other affiliates in the holding company system without proper credit analysis or documentation. The magnitude of the classifications required a substantial provision to the allowance for possible loan losses. Despite those setbacks, the bank's return on assets was its highest in several years due to income from other areas, and its capital was adequate. Of concern, however, was the failure to document management fees paid to the holding company, several violations of law, and weak internal controls.

A Memorandum of Understanding with primary emphasis on the loan portfolio was signed by the bank. Under the terms of the Memorandum, the bank was prohibited from purchasing loan participations unless proper documentation had been obtained and credit analyses had been performed. The bank was further required to implement a program to eliminate its criticized assets, obtain proper credit information and collateral documentation on all loans, maintain the allowance for possible loan losses at an adequate level, take steps to eliminate all violations of law, and correct specified internal control deficiencies. The bank was also prohibited from paying management fees to its holding company except in accordance with the Office's directives regarding payment of such fees. Finally, the bank was required to establish written supervisory procedures and an audit program designed to assure compliance with the rules of the Municipal Securities Rulemaking Board.

### 130. Bank with assets of $100 to $250 million

An examination revealed a high volume of criticized assets, high loan losses, improper lending, investment, and funds management practices, poor earnings and an inadequate capital base. These problems were primarily attributable to poor economic conditions, inadequate management [illegible] supervision by the board of directors.

A Formal Agreement required the bank to (1) appoint a compliance committee to monitor and ensure compliance with the articles of the Agreement, (2) engage an outside consultant to study bank management and organization, with particular emphasis on loan administration, and develop a written management plan based on that study, (3) immediately correct all violations of law, rule, or regulation, (4) establish a segregated trading account prior to engaging in securities trading activities and develop and implement a written trading account policy, (5) immediately reverse a gain the bank booked from the sale and repurchase of United States Treasury notes, (6) adopt and implement a written program to eliminate the basis of criticism for criticized assets, (7) stop extending credit to borrowers holding criticized loans in excess of $100,000; (8) obtain and maintain current and satisfactory credit information and collateral documentation; (9) adopt and implement a written program to improve the bank's collection efforts, (10) review and revise its written lending policies, (11) adopt and implement a written loan review program, (12) establish a program for the maintenance of an adequate allowance for possible loan losses, (13) review and revise the bank's written funds management policy, (14) implement a written program to improve and sustain earnings, including detailed and comprehensive budgets, (15) achieve, within 90 days, and maintain thereafter, primary capital equal to at least 7 percent of total assets, (16) submit a written 3-year capital plan; (17) restrict dividends, (18) ensure that the bank operates on a full accrual basis in accounting for commercial loan income and maintains all major income and expenses on a full accrual basis, (18) submit monthly reports concerning the status of the bank; and (19) submit quarterly compliance reports.

### 131. Bank with assets of less than $25 million

The bank's primary problem was a high level of classified assets which had doubled since the previous examination. Weaknesses in credit administration were apparent, but poor economic conditions were also a factor. Several violations of law were noted, including two violations of 12 USC 84. Earnings were satisfactory and capital was considered adequate. The volume of nonperforming loans and the level of criticized assets, however, threatened to have a negative impact on future capital [illegible]. Funds management practices were informal but provided [illegible] liquidity and relatively stable [illegible].

A Memorandum of Understanding [illegible] which required the bank to take [illegible]

[illegible] to protect its interests with respect to criticized assets, and implement a program to eliminate the basis upon which each asset over $25,000 was criticized, review and revise the existing lending policy, adopt a written program to provide for improved collection efforts, establish procedures to prevent recurrence of violations of laws, furnish written materials to support the purchase price paid by the bank for an insurance agency, and submit monthly progress reports.

### 132. Bank with assets of less than $25 million

The most recent examination revealed a high volume of classified assets. Poor loan administration and collateral-based lending philosophies were the primary cause for the rise in classified loans. Fifty percent of gross loans were unsupported by current credit information. Other areas of concern included internal control deficiencies, lack of funds management policy, and poor earnings.

A Memorandum of Understanding was entered into with the bank which required it to: (1) take prompt and continuing action to protect its interests with respect to criticized assets, (2) adopt and implement a written program for eliminating the basis upon which each asset had been criticized, (3) lend no additional money, or otherwise extend credit, to any borrower whose loan has been criticized, unless in the best interest of the bank, and then only with prior written board approval, (4) immediately provide for review of the bank's loan portfolio to ensure timely identification of problem loans, (5) take all necessary steps to obtain and maintain satisfactory credit information, (6) conduct quarterly reviews of the allowance for possible loan losses, (7) not lend money in excess of 12 USC 84, (8) correct each violation of law, (9) evaluate the sufficiency and adequacy of the officer staff, (10) adopt a written policy regarding funds management, and (11) correct internal control deficiencies.

### 133. Bank with assets of $50 to $100 million

An examination of the bank revealed that classified assets had increased substantially. The majority of the credits were classified substandard and two-thirds were dependent on the sale of real estate for repayment. The allowance for possible loan losses was inadequate and there was one violation of 12 USC 84. Other problems noted were criticized loans to insiders [illegible] percent of total criticized loans, a violation [illegible] and several technical violations of [illegible].

A [illegible] required the bank [illegible] a written [illegible] extend no additional credit to criticized borrowers without prior board approval, obtain current and satisfactory credit information, review the adequacy of the allowance for possible loan losses, and submit monthly progress reports.

### 134. Bank with assets of $500 million to $1 billion

Examination of this bank and others in the holding company system revealed deterioration centered in the loan portfolio. Uncontrolled loan growth resulted in concentrations of credit in energy, agribusiness, and commercial real estate and a substantial increase in classified assets. Most of the assets were participations purchased from other affiliates in the holding company system without proper credit information or analysis. Also of concern was the bank's internal loan review system and violations of law. Mitigating factors to the deterioration in asset quality were good earnings, capital, and funds management.

A Memorandum of Understanding addressing primarily the condition of the loan portfolio was signed with the bank. The Understanding prohibited the purchase of participations unless proper credit information was obtained and credit analysis performed. It also required the implementation of a program to eliminate criticized assets, maintenance of credit information and collateral documentation, and revision of the bank's lending policy to address energy lending and concentrations of credit. The bank was further required to strengthen its loan review system through an increase in staffing. Finally, written supervisory policies and an audit program designed to assure compliance with the rules of the Municipal Securities Rulemaking Board were to be established.

### 135. Bank with assets of $25 to $50 million

A recent examination of the bank revealed that certain loans did not comply with the provisions of the Truth-in-Lending Act, 12 USC 1601, and Regulation Z, 12 CFR 226. The bank lacked written procedures for reviewing loans and identifying and correcting violations. In addition, the bank needed to determine whether reimbursement was necessary in certain cases.

A Formal Agreement was entered into requiring the board of directors to adopt and implement procedures designed to ensure compliance with the Truth-in-Lending Act and Regulation Z. Additionally, the board agreed to a review of all violations cited in the report of examination to determine whether reimbursement for overcharges was appropriate.

### 136. Bank with assets of $25 to $50 million

Asset deterioration had resulted in a large volume of

classified assets. Deterioration was attributed to ineffective loan administration, poor supervision by the board, and a declining economy. Documentation exceptions represented 32 percent of gross loans and overdue paper continued at a high rate, equalling 7.38 percent of loans. The bank had been operated without written policies and formal procedures; bond purchases were poorly documented; the investment portfolio was used as a trading account; and the bank was in an illiquid position. In addition, numerous violations of law were noted.

A Formal Agreement entered into with the board required correction of the violations of law, development of plans to eliminate criticized assets, adoption of written policies for lending and liquidity, and review of the investment policy. Monthly progress reports were required on each article of the Agreement. A civil money penalty referral was also transmitted to Washington for the violations of 12 USC 84.

### 137. Bank with assets of $25 to $50 million

Substantial deterioration in asset quality was noted. This was attributed to inadequate supervision and liberal lending practices. Numerous violations of law were noted, including two infractions of the legal lending limit.

A Formal Agreement required correction of all violations of law. The board agreed to eliminate assets from criticized status, increase collection efforts, maintain sufficient credit and collateral documentation, and maintain an adequate balance in the allowance for possible loan losses. The board was requested to review the lending policy to ensure adherence and improve their loan review function. A revised 5-year capital program is to be forwarded to this Office. The board will be conducting a study of management and implementing a written management plan. An internal audit program will be conducted and the bank will correct the deficiencies in the consumer area.

### 138. Bank with assets of $25 to $50 million

The bank was plagued with significant asset deterioration in the loan portfolio, high loan losses, poor earnings, inadequate capital and liquidity, and numerous violations of law. The bank's problems were attributable to a weak directorate and prior inept management in the bank.

An Order to Cease and Desist outlined the plan of administrative action the bank entered into with this Office. It is intended to address and correct the bank's deficiencies as disclosed in reports of examination. The board of directors, on behalf of the bank, have agreed to adequately capitalize the bank, pay no dividends, unless legal and with prior consent of the appropriate Deputy Comptroller, correct all violations of law, eliminate assets from criticized status, not extend credit to criticized borrowers, obtain and maintain adequate credit and collateral documentation, ensure annual external audits, and submit monthly reports to the Deputy Comptroller.

### 139. Bank with assets of less than $25 million

Rapid asset growth followed this bank's relocation from a suburban location to a central business district. The loan portfolio doubled during a 15-month period, however, staffing was not increased and the bank did not have adequate lending policies and procedures. These factors contributed to an excessive level of classified assets. Credit information was missing and collateral exceptions were excessive. Delinquencies were high. The bank's holding company was highly leveraged and 1982 earnings were insufficient to service debt. Bank earnings were offset by high overhead and management fees. The bank's allowance for possible loan losses needed periodic review and adjustment.

A Formal Agreement required the bank to adopt and implement a written program to strengthen the criticized assets and otherwise eliminate the grounds of criticism. Problem loan identification procedures were to be established and a written program devised to improve collection efforts. The bank's allowance for possible loan losses was to be reviewed on a quarterly basis and adjusted appropriately prior to the Report of Condition. Credit information deficiencies were to be corrected and the collateral exceptions remedied. The Agreement further required the bank to revise its lending policy and to adopt a written liquidity, asset and liability policy. A study of current management was also to be conducted.

### 140. Bank with assets of less than $25 million

A specialized examination revealed a deteriorated condition of the bank. Classified assets more than tripled since the last examination. Because of the large amount of losses, the provision to the allowance for possible loan losses had a substantial effect on earnings. Capital appeared inadequate in light of the large volume of classified assets. Loan portfolio administration was a primary weakness, with credit information exceptions and past-due loans at unacceptable levels.

An Order to Cease and Desist, to which the bank consented, required the bank to: (1) appoint a compliance committee, comprised of five directors who are not officers of the bank, to supervise and monitor the bank's compliance with each provision of the Order;

[illegible] violation of law, (3) extend no credit directly or indirectly to any director, officer, or shareholder owning 10 percent or more of the bank's stock or stock of the bank's parent, unless in conformance with 12 USC 375a and 375b and 12 CFR 215, (4) establish procedures to prevent insider violations of law, rule, or regulation cited within the Order, (5) require the compliance committee to complete an evaluation of the bank's current management and implement a written program to eliminate deficiencies identified by the review, (6) adopt or otherwise eliminate the assets criticized in the report of examination, (7) not extend credit to any borrower whose credit is criticized, as long as it remains criticized, (8) strengthen the bank's collection efforts and reduce the level of delinquent loans, (9) correct credit information deficiencies and collateral exceptions, (10) review and revise the bank's lending policy, (11) adopt a written overdraft policy, (12) establish a loan review system, (13) maintain an adequate allowance for possible loan losses, (14) formulate a written capital program, (15) pay or declare dividends only in conformance with required conditions, (16) submit a budget, income and expense projections, and the underlying assumptions upon which they are based, (17) adopt and implement a written liquidity and asset and liability management policy, (18) review and revise the bank's investment policy, ensuring that securities trading does not take place within the bank's investment portfolio, (19) require the compliance committee to conduct a review of all of the bank's securities purchase and sale transactions for the previous year, and develop and implement written policies and procedures for retail repurchase agreements, (20) correct internal control deficiencies; (21) correct all consumer violations, including each violation of the Equal Credit Opportunity Act and Federal Reserve Board Regulation B, and review the bank's performance under the Community Reinvestment Act, (22) adopt and implement a written, comprehensive conflict of interest policy applicable to directors, officers, and employees of the bank, and (23) submit monthly progress reports to the regional administrator setting forth actions taken to comply with the provisions of the Order and the results of those actions.

### 141. Bank with assets of $25 to $50 million

Significant securities losses were recognized in 1981 from the sale of depreciated securities. The examination identified the bank's investment and tax strategy as the cause of the losses, reducing the bank's primary capital. The bank recorded deferred tax benefits through a report stripping to offset securities [illegible] $657,617 represented [illegible] expected to be [illegible] Manage[illegible]

charge against earnings and undivided profits and to file appropriate amended reports of condition and income.

A Memorandum of Understanding was entered into with the bank which required the bank to increase capital to 7 percent of total assets by December 31, 1983. Subsequently, the bank achieved this requirement and the Memorandum of Understanding was terminated.

### 142. Bank with assets of $25 to $50 million

Poor loan supervision by a former chief executive officer and management was the initial cause of asset problems. The lack of an internal review system allowed the problem loan situation to go unnoticed. Heavy loan losses caused poor earnings and considerable provision had to be made to the allowance for possible loan losses. Noncompliance with a Memorandum of Understanding signed in the prior year was a cause of great concern.

An Order to Cease and Desist, stipulated to by the board, required the bank to establish a compliance committee responsible for monitoring and coordinating the bank's adherence to the Order. The board was required to review management's written program designed to collect, strengthen, or otherwise eliminate the grounds of criticism for all assets criticized. The bank was prohibited from extending credit to criticized borrowers unless failure to extend such credit would be substantially detrimental to the best interests of the bank. The board was required to review and revise the bank's written lending policies and procedures. The bank was required to implement a written program designed to improve and strengthen collection efforts. The board was required to adopt and implement a written program designed to improve and sustain the earnings of the bank. The board was required to develop and adopt a 3-year capital plan acceptable to the Office which includes provisions to maintain primary capital to total assets at 7 percent. The bank was directed to complete reimbursement procedures for violations of the Truth-in-Lending Act. The bank was required to correct violations of 12 CFR 202 and take immediate action to correct all violations of consumer law, rule, and regulation. Finally, the board was required to develop and implement a written program designed to ensure that the bank operates in compliance with all applicable consumer protection laws, rules, and regulations.

### 143. Bank with assets of less than $25 million

Through examination and other investigation of the bank it was disclosed that the bank had acquired $10 million in brokered deposits. The bank subsequently

invested those brokered funds in an annuity contract. Those transactions not only violated banking laws but also placed an enormous strain upon the capital of the bank.

A Temporary Order to Cease and Desist was issued against the bank which prohibited the bank from accepting brokered deposits without providing the Office written notice. It also provided that the bank was not to violate 12 USC 24 (Seventh). Finally, it ordered that the bank not obtain any investment securities, if the proposed investment exceeded $100,000, without prior notice to the Office. The Office retained the power of veto over the purchase of any investment securities. The Comptroller also issued an Order of Investigation to look into this matter further.

### 144. Bank with assets of less than $25 million

Through examination and other investigation of the subject bank, it was disclosed that the bank had purchased approximately $16 million in brokered funds. Approximately $9.6 million of these funds were invested in annuity contracts. It was further discovered that a portion of the purchase price of the annuity contracts was not sent to the annuity company but was instead deposited to the accounts of three bank insiders. These transactions constituted violations of banking laws and unsafe and unsound banking practices.

A Temporary Order to Cease and Desist and First Amended Temporary Order to Cease and Desist were issued against the bank. The Temporary Order required the board to immediately develop and implement a written capital plan to achieve and maintain a minimum level of primary capital equal to 7 percent of the bank's total assets. It further prohibited the bank from accepting brokered deposits without providing the Office written notice. The Temporary Order also provided that the bank was not to violate 12 USC 24(Seventh). Finally, it ordered that the bank not obtain any investment securities, if the proposed investment exceeded $100,000, without prior notice to the Office. The Office retained the power of veto over the purchase of any investment securities. The First Amended Temporary Order required the bank to take all steps necessary to immediately terminate any annuity contracts, without loss to the bank. It further required all bank funds invested in such annuity contracts, including the funds that were directed to the accounts of bank insiders, to be immediately returned to the bank. Finally, it directed the insiders involved to immediately return to the bank the funds that had been redirected to their personal accounts. The Comptroller also issued an Order of Investigation to look into this matter.

### 145. Bank with assets of $25 to $50 million

This agricultural institution had experienced [illegible] asset quality because of su[illegible] Ineffective credit administration, however, [illegible] uted to the bank's problems. The examination [illegible] closed classified assets equal to 107 percent of gross capital funds. Further, loan losses depleted the allowance for possible loan losses and the possibility for significant future losses in the loan portfolio appeared great. Those losses have had, and will continue to have, a detrimental impact on earnings. A Memorandum of Understanding previously entered into with the bank has proved to have little or no effect on the bank's problems.

A Formal Agreement entered into with the bank required it to: (1) correct all violations of law or regulations in the commercial and consumer reports of examination and adopt procedures to prevent their recurrence; (2) adopt procedures as part of the internal audit program to assure and verify ongoing compliance with all laws and regulations, (3) correct all violations of 12 CFR 202 and 15 USC 168lm, and adopt procedures to prevent their recurrence, (4) prepare a management staffing and succession plan, (5) obtain a capable senior lending officer acceptable to the Comptroller's Office; (6) review and revise the lending policy and procedures, including internal controls and formal reporting systems, to ensure that policies are being adhered to, (7) implement an internal loan review system, (8) adopt and implement a written program for eliminating the grounds of all criticized assets exceeding $28,000, (9) advance no additional credit to any criticized borrower unless to do so is in the best interests of the bank and has prior board approval; (10) obtain and maintain adequate credit and collateral documentation on all existing and future credits; (11) adopt and implement policy regarding capitalizing interest on renewed credits, (12) review and maintain the allowance for possible loan losses, (13) adopt and implement a written profit plan based on a complete analysis of the bank's earning capacity; (14) prepare a written funds management policy; and (15) develop and implement a consumer compliance program.

### 146. Bank with assets of $25 to $50 million

Inadequate credit administration and lax supervision by the board resulted in an excessive level of classified assets. Year-to date earnings, which had already been depressed, were more than wiped out by the provision to the allowance for possible loan losses necessitated by loan losses recognized during the examination. The overall management of the loan department is considered poor.

[illegible] Adjustment [illegible] with the bank [illegible] [illegible] compliance committee [illegible] and [illegible] the commercial [illegible] [illegible] [illegible] process [illegible] (9) obtain reimbursement [illegible] assessed by regulation 19 USC [illegible] [illegible] a chief executive officer acceptable to the Office; (5) prepare a written management staffing and succession plan; (6) review and amend its written lending policy; (7) review and implement necessary internal controls and procedures including formal reporting systems for monitoring compliance with the loan policy and for accurately identifying and reporting problem losses; (8) adopt and implement a written program for eliminating problems of all criticized assets exceeding $40,000; (9) extend no additional credit to criticized borrowers unless in the best interest of the bank and with prior board approval; (10) adopt a program for improved collection efforts; (11) obtain adequate credit and collateral documentation; (12) prepare a complete credit memorandum for each credit in excess of $40,000; (13) review and maintain the allowance for possible loan losses; (14) adopt a comprehensive capital and earnings plan, including reporting procedures; (15) declare and pay no dividends in contravention of 12 USC 56 and 60 unless in the best interest of the bank and with prior approval by the Office; (16) review and implement appropriate policies regarding escrow activities; (17) develop and implement a consumer compliance program; (18) comply with all instructions regarding Regulation B from the Office; (19) remedy all criticisms of specifically mentioned trust accounts; (20) decide whether to continue or terminate trust powers and proceed with its decision in a safe and sound manner; (21) address possible liability in the bank's corporate trust accounts; and (22) conduct an outside audit of the trust department.

### 147. Bank with assets of $25 to $50 million

The bank failed to take corrective action with respect to previously noted deficiencies. Deterioration in the overall condition of the bank was caused, to a large degree, by inadequate supervision of the loan portfolio by the board and bank management and the liberal [illegible] by a former bank officer. The examiners found [illegible] criticized assets uncorrected [illegible] inadequate allowance for [illegible] a declining capital trend, and a [illegible]

A formal agreement [illegible] with the bank required [illegible] (1) [illegible] (2) [illegible] (3) immediately correct all violations of laws, rules, and regulations and establish written procedures to prevent their recurrence; (5) achieve and maintain a primary capital equal to 6.5 to 7 percent of total assets by a specified date; (6) develop and implement a written capital plan; (7) declare and pay no dividends in contravention of 12 USC 56 and 60 unless such action is in the best interest of the bank and prior approval by the Office has been obtained; (8) review and develop a management staffing and succession plan; (9) adopt and implement a program to eliminate all criticisms of assets exceeding $25,000; (10) prohibit extension of credit, including renewals, to any criticized borrower unless in the best interest of the bank and with prior board approval; (11) adopt and implement a problem loan identifying and reporting program; (12) establish formal procedures to review adequacy of the allowance for possible loan losses; (13) review and revise the written lending policy; (14) strengthen collection procedures; (15) review and analyze earning capacity and report findings to the board; (16) adopt and implement a written profit program; (17) review and revise the written asset liability management policy; and (18) submit progress reports as required.

### 148. Bank with assets of $25 to $50 million

Weak supervision of the loan portfolio, together with the depressed local economic conditions, resulted in an unacceptable level of classified assets. Specific deficiencies in loan supervision included the lack of a well defined organizational structure and a corresponding lack of accountability, weak collection policies, and excessive credit information and collateral documentation deficiencies. Furthermore, the bank was operating without the benefit of a formal funds management policy, a long range planning process, or operational budgets. Heavy loan losses, rising nonearning assets, and narrowing interest margins have severely affected the bank's earnings performance over the past two years.

A Formal Agreement entered into with the bank required the correction of violations of law and establishment of procedures to prevent future violations. The board was required to conduct an analysis of the effectiveness of its supervision and the management needs of the bank and forward its conclusions and recommendations to the regional administrator. The board was to develop a written plan to reduce and strengthen each criticized asset and was prohibited from extending further credit to any criticized borrower without approval from a majority of the directorate. In addition, the board was to establish policies and procedures to strengthen collection procedures, improve control over delinquencies, adopt and implement an effective problem loan identification system

and review the adequacy of the allowance for possible loan losses on at least a quarterly basis. Credit information and collateral documentation exceptions cited in the report of examination were to be corrected and future lending was restricted unless the bank obtained current credit information and properly perfected its collateral position. Furthermore, the board was to develop and implement an adequate funds management policy, review and analyze the bank's earnings capacity and develop a comprehensive operating budget, take actions to strengthen the internal external audit coverage, and eliminate or substantially mitigate all internal control exceptions. Quarterly reports to the regional administrator on the bank's compliance with the Agreement was required.

### 149. Bank with assets of less than $25 million

The examination disclosed a failure by the board and management to respond to criticisms centered around the ineffective loan administration and inadequate collection efforts of the bank. Those deficiencies had resulted in significant deterioration in loan portfolio quality and sizable loan losses. Past-due loans were excessive and many credits were not supported by current and satisfactory documentation. Because of loan losses experienced during the examination, an immediate provision of $135,000 to the allowance for possible loan losses was required. That provision, coupled with a declining net interest margin, resulted in an operating loss in 1982. The current funds management policy was not considered adequate to ensure a reversal in the worsening net interest income trend.

A Formal Agreement entered into with the bank required it to: (1) appoint a compliance committee acceptable to the Office; (2) correct all violations of law and deficiencies cited in the report of examination, and adopt procedures to prevent their recurrence; (3) take immediate and continuing action to ensure that no loss results from 12 USC 84 violations or from loans criticized as to credit quality, and adopt internal controls and procedures to prevent future lending limit violations; (4) prepare a written management study plan; (5) review and amend written lending policies and procedures; (6) review and implement necessary internal controls and procedures, including formal reporting systems, for monitoring compliance with the loan policy and accurately identifying and reporting problem loans; (7) adopt and implement a written program to eliminate the grounds for all criticized assets exceeding $28,000; (8) extend no additional credit to criticized borrowers unless in the best interest of the bank and with prior board approval; (9) adopt a written program to improve collection efforts; (10) obtain satisfactory credit and collateral documentation; (11) review and maintain an adequate allowance for possible loan losses; (12) [illegible] accounts equal to at least 7 percent [illegible] total assets; (13) prepare a written [illegible] develop and implement a consumer compliance program and fully comply with instructions by the Office concerning Truth-in Lending Act violations; (15) appoint a trust audit committee; and (16) adopt policies, procedures, and internal controls to ensure compliance with 12 CFR 9.

### 150. Bank with assets of less than $25 million

The asset quality of the bank had deteriorated, with classified assets representing a large portion of gross capital funds. Past due loans and credits lacking adequate documentation had reached unacceptable levels. Although some of the bank's credit quality problems can be attributed to a poor agricultural economy, the lack of adequate supervision by the board is considered a primary cause. Examination losses had adversely affected the allowance for possible loan losses and the bank's earnings capabilities. The profit picture was weakened further by unstable net interest margins, high noninterest expense, and deficiencies in the bank's funds management policies.

A Formal Agreement entered into with the bank required it to: (1) appoint a compliance committee acceptable to the Office; (2) correct all violations of law and deficiencies cited in the report of examination and develop procedures to prevent their recurrence; (3) prepare a written management staffing and succession plan; (4) develop a comprehensive management reporting procedure; (5) formulate and implement a written program for eliminating all criticized assets in excess of $25,000; (6) extend no additional credit to criticized borrowers, unless in the best interest of the bank and with prior written board approval; (7) adopt a written collection program; (8) adopt a policy relating to capitalization of interest on renewed credits; (9) review and maintain the allowance for possible loan losses; (10) adopt a written funds management policy; and (11) develop and implement a consumer compliance program.

### 151. Bank with assets of less than $25 million

A depressed agricultural economy and a deteriorated loan portfolio resulting from lax supervision by the board and bank management are the most significant problems confronting the bank. The examination revealed that past due credits and loans not supported by current and satisfactory credit information had increased. Classified assets had [illegible] ly. The bank continues to operate without a [illegible] funds management policy or a [illegible] get.

[illegible] take immediate and [illegible] that [illegible] loans [illegible] 91 violations of loan [illegible] into [illegible] and desirable internal control procedures to prevent future lending limit violations (2) review and revise written lending policy [illegible] review and revise internal controls and reporting systems to ensure that the bank's policies are being adhered to, (5) adopt and implement a written program for eliminating all criticized assets in excess of $[illegible], (6) prepare a written management staffing and succession plan based on a study of current management, (7) extend no additional credit to criticized borrowers unless in the best interest of the bank and with prior written board approval, (8) obtain satisfactory credit and collateral documentation, (9) review and maintain an adequate allowance for possible loan losses, (10) prepare a written profit plan, (11) develop and implement a written funds management plan, (12) adopt a written investment policy, and (13) ensure adequate audit coverage of the electronic data processing function.

152. Bank with assets of $50 to $100 million

A recent examination revealed that classified assets equalled more than 200 percent of gross capital funds. Many loans were not supported by satisfactory credit information. Collection procedures were not adequate, and a high dollar volume of loans were overdue and on nonaccrual status. The bank's earnings had been overstated through the bank's failure to properly account for accrual interest. The bank's liquidity and capital were inadequate when viewed in relation to the bank's condition, asset quality, earnings, and lack of depth of management. The bank had not maintained its allowance for possible loan losses at an adequate level and had failed to implement adequate internal control procedures.

An Order to Cease and Desist was issued requiring the bank to correct all violations of law including [illegible] 12 USC 84 and 371c involving transactions with affiliates. The bank was to undertake a [illegible] and correct management and staffing [illegible] including the appointment of a [illegible] position. The bank's lending policy was [illegible] and an independent [illegible] program was to be initiated and implemented [illegible] to take [illegible] which had been acquired improperly. Also, a written program designed to strengthen or collect the criticized assets was to be devised. Current and satisfactory credit information was to be obtained for all loans identified as lacking such, and the allowance for possible loan losses reviewed and adjusted at least once each quarter. The bank's primary capital was to be raised to and maintained at 7 percent of total assets, and no dividends were to be paid without prior approval of the Comptroller's Office. A funds management program was to be adopted, and adequate auditing procedures and internal controls established.

153. Bank with assets of $100 to $250 million

A recent examination revealed violations of law in both the commercial and the consumer areas. Operating management was thin and in need of review. The bank's internal controls and reporting systems did not foster adherence to the bank's written loan policy, and several deviations were noted. The bank had no independent internal loan review process to identify problem loans in a timely manner. An excessive amount of criticized assets needed to be addressed directly in an effort to lower the amount and eliminate the grounds for criticism. Credit information was lacking as was collateral documentation on several loans. The allowance for possible loan losses was in need of periodic review to keep it adequate.

A Formal Agreement required the bank to take immediate actions to correct each violation of law. The bank's internal controls and formal reporting systems were to be reviewed and modified to ensure compliance with the bank's written loan policy. An independent internal loan review system was to be established. A written program was to be adopted to eliminate the grounds of criticism for all criticized assets. Current and satisfactory credit information was to be obtained and collateral documentation perfected. A program for periodic reviews of the allowance for possible loan losses was to be established.

154. Bank with assets of more than $1 billion

The bank serves as the transfer agent and/or securities custodian for a large number of mutual funds. An examination and further investigation revealed substantial problems in the bank's performance of those functions. A number of the ledgers for the mutual funds were out of proof. A large number of unreconciled differences in the mutual funds accounts were carried as suspense items. A processing backlog had resulted in an ordinate time lag in the turnaround processing and forwarding of items presented for transfer. Cash received by the bank was not posted to mutual fund records within 24 hours due to the backlog and large number of suspense items in violation of

the Investment Company Act of 1940 and Rule 2(a)(4) thereunder. Further, the bank was not handling written inquiries from shareholders in accordance with the Securities and Exchange Act of 1934, 15 USC 78q-1 and rules promulgated thereunder, 12 CFR 240.17Ad-5. Also of concern was the lack of proper internal controls for the computer processing system and for unissued certificates. The problems described above were the result of a combination of factors including a rapid expansion in the bank's mutual fund service business, centered primarily in load funds, the lack of sufficient and experienced management to handle the expansion, and the conversion to a new computer system.

A Formal Agreement entered into with the bank required it to continue to correct any remaining out of proof conditions in its ledgers, to perform daily reconciliation of all shareholder accounts, to process promptly all items presented for transfer, and to complete a review of management and staffing in the shareholder services area. The bank was required to implement measures to: improve internal controls, audit the transfer agent function on a continuing basis, respond promptly to shareholder and fund manager inquiries in compliance with applicable provisions of the Securities Exchange Act of 1934, reflect daily changes in the number of outstanding shares of all client investment companies registered pursuant to the Investment Company Act of 1940 and the rules promulgated thereunder, and assure the adequacy and accuracy of any recordkeeping function performed by the bank for or on behalf of such registered investment companies. The bank was also required to maintain a reserve it had established to cover operational problems in its shareholder servicing area. Finally, the bank agreed not to expand temporarily its transfer agent servicing operation except for new funds established by investment advisory complexes currently utilizing the bank's services.

### 155. Bank with assets of $25 to $50 million

The bank had been operating under an Agreement. After the Agreement was terminated, new ownership took over the bank and the bank's condition deteriorated drastically. The bank experienced a large volume of out of area loans, a large increase in classified loans, inadequate allowance for possible loan losses, and many credit exceptions. In addition, there were numerous violations of law, including violation of the bank's lending limit and violations on loans to insiders. Substantial losses had been incurred on the insider loans.

Civil Money Penalties were issued against all of the directors in the amount of $1,000, and against the former president in the amount of $5,000. An Order to Cease and Desist [illegible] issued on all of the requested [illegible] ment for losses on the violations of law. [illegible] directors' liability was pursued through separate cease and desist actions against each director [illegible] cluding the former president. Ultimately, the directors other than the president, settled by reimbursing the bank $75,000. The president of the bank consented to a cease and desist order under which he agreed to reimburse the bank in the amount of $350,000.

### 156. Bank with assets of less than $25 million

The bank had been operating under a Formal Agreement since 1981. Nevertheless, the bank's condition had continued to deteriorate. Lending activities had become increasingly speculative and had resulted in a large volume of classified assets and past-due installment loans. Consequently, the bank's allowance for possible loan losses had been depleted and the bank's operating losses were mounting. Capital was also inadequate. A recent conversion to an in-house computer system had caused almost complete operational failure in the bank. In addition, numerous violations of law were noted. The cause of the bank's problems were traced to inadequate management and poor board supervision.

An Order to Cease and Desist required correction of the cited violations of law and regulation and implementation of procedures to prevent recurrence of such violations. The Order also required the bank to appoint a compliance committee to ensure and monitor compliance with the provisions of the Order, conduct a comprehensive management study, and implement written programs to increase and maintain the bank's capital at an adequate level, remove all assets from criticized status, conduct quarterly reviews of all criticized assets, improve collection efforts, collect and maintain adequate credit information, and implement a funds management policy. The bank was also required to retain a certified public accountant to examine the bank's expenses. In addition, the Order prohibited the bank from paying any expenses of or bonuses to any officer or director that would be inconsistent with safe and sound business practices, engaging in any securities trading activities until the board adopts a written trading policy, and extending any credit to holders of criticized loans.

### 157. Bank with assets of $25 to $50 million

The bank was operating under formal written agreement. The examination revealed deterioration in the condition of the bank as well as unsatisfactory compliance with the Agreement. The quality of the loan portfolio had remained poor with high [illegible] and the potential for further [illegible]

[illegible] and a [illegible] of [illegible] that the bank [illegible] again [illegible] for the coming year. Capital was severely depleted and violations of law and regulation including violations of 12 USC 84 with loss were prevalent. The concurrent consumer examination revealed failure to comply with consumer laws and regulations and an examination of the trust department also revealed failure to comply with applicable laws and internal control weaknesses. The condition of the bank was attributed to the liberal lending policies of a former chief executive officer and inadequate supervision by the board. The bank had hired a new chief executive officer, but because of the magnitude of the problems left to him and the lack of supervision by the board, very little progress in correcting the bank's problems had been made. Primary areas of noncompliance with the Agreement included the failure to diversify the composition of the board, failure to correct violations of 12 USC 84, failure to implement internal loan review, failure to reduce the volume of classified assets, failure to obtain credit and collateral documentation, failure to maintain an adequate allowance for possible loan losses, and failure to adopt realistic capital plans.

An Order to Cease and Desist required the bank to engage the services of an independent consultant to assist the board in completing a written study of the adequacies of the bank's management and staffing with emphasis on the lending area. All deficiencies noted by the consultant were to be corrected. The consultant was also required to evaluate the effectiveness and the capability of the board of directors and to make recommendations for improving its effectiveness. Violations of 12 USC 84, as well as all other violations of laws and regulations, were prohibited and written procedures were required to prevent future violations. The bank was required to maintain primary capital equal to at least 7 percent of assets and to adopt a capital plan to ensure the continuing adequacy of the bank's capital. Dividends were prohibited. The board was required to adopt a written program to improve and sustain the earnings of the bank as well as a program to eliminate the basis of criticism for assets cited in the report of examination. The bank was required to maintain current and satisfactory credit information as well as proper collateral documentation. The bank was also required to reduce its level of delinquent nonaccrual loans and to maintain the adequacy of the bank's allowance for possible loan losses. The board was required to implement an internal loan review system and to revise the bank's lending policy. Internal control deficiencies in the bank's consumer and trust departments were required to be corrected.

# Interpretive Letters—April 15 to June 15, 1983


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## 256—April 4, 1983

I am writing in response to the (Agricultural Credit Corporation (ACC)) Advisory Memorandum of December 16, 1982, which was received in this Office on January 4, 1983. The memorandum discusses a proposal for the (ACC) Agricultural Loan Participation Program. On January 4, 1983, Mr. *** of the firm of *** which represents (ACC), met with attorneys Howard Finkelstein and Nicolette Prevost. During the meeting, Mr. *** explained the operation of the proposed program and the rationale for portions of the proposal. You seek a legal opinion concerning the proposal.

The relevant facts of the proposal, as I understand them, include the following (Corporation) is a Delaware corporation with its principal place of business in Iowa. It was formed in September 1981 and is owned by *** Associations of Arkansas, Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota and Wisconsin. (ACC), a (Corporation) subsidiary and an agricultural credit corporation, was incorporated on May 4, 1982. (ACC) and (Bank), a bank established in the Netherlands, have agreed to establish a continuing program that will provide banks in the 13 states (originating banks) with the opportunity to sell participations to (Bank) in loans made to farmers and ranchers. (Bank), a cooperative bank in the Netherlands, serves as a central bank for cooperative banks, located in the Netherlands, which form the (Bank) Group. (Bank) operates a Federal branch which is located at ***, New York, New York.

(ACC) will provide services to the participant and on behalf of the participant to the originating banks. These services will include facilitating the sale of participations in loans made by the originating banks, transferring funds from the participant to the originating banks, and assuring that the loans are eligible for participation. Each originating bank will be required to purchase (ACC) capital notes in order to become a member of the group of banks permitted to sell participations through (ACC). The originating bank, through (ACC), will then offer for sale to (Bank) a participation equal to 80 percent of an eligible loan. The originating bank will retain a 20 percent interest in the loan. The terms for repayment of the participations provide that whenever the originating bank receives a payment of principal or interest or makes an application of funds in connection with a loan in which (Bank) has purchased a participation, the originating bank shall pay over the amount to (Bank) until (Bank's) participation is paid out The originating bank would also follow this preference payout procedure for loans in default. The program provides for the repurchase of the loan participations by the originating bank under certain circumstances including the failure of the borrower to pay when due any principal or interest or or other sums due in connection with any loan which was not an eligible loan at the time the participation was purchased

### Criteria of a True Participation

The proposal provides for the sale of participations in agricultural loans made by national banks to (Bank) The desired effect of such a sale is to remove the risk of the sold portion of the loan from the originating bank so that the extension of credit to the borrower will not exceed the lending limits of the originating bank If the participation is not a true participation, the transaction constitutes a borrowing or deposit by the originating bank and a lending by the participating bank and the entire loan will remain with the originating bank for 12 USC 84 purposes.

Generally, a loan participation is deemed a true participation if there is a pro rata sharing of market risk and credit risk between the seller and the participant Such a sharing of risk is present when there is a non-recourse sale of a participation in a loan

### Form of the Agreement

In my opinion, the form of this participation, while it differs somewhat from transactions commonly termed participations, can permit the pro rata sharing of market and credit risk required for a true participation. The participation agreement involves the sale of loans made by several originating banks through (ACC) to a single participant, (Bank). While there is a provision to eventually expand the program to include additional participants, the agreement does not resemble other transactions commonly termed participations such as the two forms that are recognized by the Report of Condition. In my opinion, the Report of Condition does not include all possible forms which a true participation may take. If an agreement involves a non-recourse sale with a pro rata sharing of the risk between an originating bank and a bank which purchases a portion of the loan, then the agreement is a true participation.

### Interest Rate Differentiation

In my opinion, a difference between the interest rate paid by the obligor on the underlying loan and the rate earned by the participant does not, in itself transform a true participation into a borrowing lending transaction In a true participation, the interest earned by the participant is often related to the interest paid by the obligor on the underlying loan This does not mean that the rates must be exactly the same The market rate of interest at the time of the participation or the performance of administrative services by the originating

basis [illegible] affect the interest rate earned by the participant. The Office has stated that a difference between the interest earned by the loan participant and the interest rate on the underlying loan, which difference is intended to replace the discount or premium imposed on the sale of paper for one of the above reasons, is not sufficient by itself to transform the transaction from a true participation to a borrowing/lending transaction. It is merely a factor to be considered in evaluating the participation. You should note, however, that the instructions for the Report of Condition state that any variance between the terms of the underlying paper and the terms of the agreement of participation in approved loans will result in categorizing the transaction as a borrowing or lending on the Report of Condition. (*See* Detailed Instructions for the Report of Condition at page 46, (B)(2)(a)(b), Specific Types of Loans.)

## Problem Aspects of the (ACC) Proposal

### Repurchase Agreement

A feature which requires that a participation be deemed a borrowing/lending transaction is a repurchase agreement. The Office has held that if a bank is required under written agreement or other understanding to repurchase any participations sold, upon notification or otherwise, it has retained the risk of the entire loan. In certain cases, the Office has deemed it necessary to require that national banks provide written assurance to this Office that there is no understanding between the originating and the participating bank, either written or oral, that the selling bank will repurchase the participation.

### Repurchase With Pro Rata Sharing of Risk

An agreement can be regarded as a true participation, even when there is a provision for repurchase of the participation for certain limited reasons, if there is a pro rata sharing of credit and market risk between the originating bank and the participant. The subject agreement permits the participant to demand repurchase of the participations by the originating bank in certain limited circumstances. It is my opinion that a demand for repurchase of a participation in a loan, which was not an eligible loan when it was sold, generally does not result in a recourse agreement or operate to alter the pro rata sharing of the risk. A true participation can exist when repurchase is required in [illegible] since the selling bank warrants that the [illegible] Eligible.

As defined in the (ACC) proposal, an "Eligible Loan" [illegible] six elements. The proposal states:

> [illegible] Loan
>
> (a) [illegible] Loan [illegible] Section 3.01 [illegible] respects conforms to the Loan Criteria except as may be otherwise stated in the applicable Participation Notice,
>
> (b) in respect of which the representations and warranties in subsections (f), (g) and (h) of Section 3.01 are true and correct,
>
> (c) the principal amount of which is greater than $25,000,
>
> (d) which is not a Defaulted Loan;
>
> (e) which is a Domestic Loan; and
>
> (f) as to which the conditions precedent to the obligation, if any, established by an Originating Bank to make such Loan have been satisfied.

The definition does not expressly require the presence of all six elements for the eligibility of a loan. However, in a phone conversation, ***, Attorney, of ***, counsel for (Bank), explained that all six factors must be present for a loan to be an Eligible one. In addition, the proposal provides a detailed list of requirements ("Acceptable Loan Categories, Terms and Conditions") for many types of loans which an originating bank might make to a farmer or rancher (*See* Operations Manual at pages IX-2 through IX-6 (Oct. 1, 1982), as amended). Factor (a) of the definition of an Eligible Loan requires conformity to "Loan Criteria." (Mr. *** confirmed that the Loan Criteria are contained within the Acceptable Loan Categories.) Thus, there are very specific objective requirements which must be met before a loan participation is eligible for sale to (Bank) by the originating bank. The originating bank warrants that each loan in which a participation is sold is an "Eligible Loan" (*See* Article III, Section 3.01(e), Representations and Warranties Master Participation Agreement (Dec. 13, 1982)). The agreement should be amended to make clear that all six elements for eligibility must be met.

The failure to comply with the listed objective criteria for loans eligible for sale to (Bank) is a violation of a contract term. The originating bank has total control to see that this term is met. The resulting repurchase requirement serves as a contractual remedy for violation of this portion of the contract. Under these circumstances, this limited repurchase provision does not affect the pro rata sharing of risk so as to convert a true participation into a borrowing/lending transaction.

One problem with the repurchase provision results from the apparently arbitrary procedure in Section 5.02 iii for determining that a loan is not an Eligible Loan. Section 5.02 ii appears to provide for a demand for repurchase when there is a judicial determination that a loan was not an Eligible Loan when the loan participation was sold to (Bank). Section 5.02 iii ap-

pears to provide for a demand for repurchase when there is a failure of a borrower to repay and the loan was not an Eligible Loan when the participation was sold. The absence in Section 5.02 iii of any procedure for determining that a loan was not eligible, appears to contrast with the judicial determination in Section 5.02 ii. Section 5.02 iii appears to permit a demand for repurchase of a "problem" loan without a contractual provision for an objective determination that the loan is not an Eligible one. The ability of the participant to require repurchase of a problem loan would clearly negate a pro rata sharing of the credit risk of a participation. Such a provision would create a borrowing/lending transaction and is not characteristic of a true participation.

Following a phone conversation on February 4, 1983, between ***, Attorney, of ***, and Larry Mallinger and Nicolette Prevost, attorneys, of this Office, Mr. *** forwarded proposed contract revisions to the agreement in a letter dated February 8, 1983.

The proposed revision to Section 5.02 states:

> the Originating Bank shall repurchase any Participation in a Loan, or at the Participant's option such part thereof as may be in default . . . if such Loan was not, at the time such participation was purchased and at the time such Loan was made, an Eligible Loan and (a) the Borrower has failed to pay when due any principal of, interest on or other sums due in connection with such Loan, or (b) prior to any such failure, either (i) the Participant and the Originating Bank have agreed to such repurchase, or (ii) one or more of the reasons by virtue of which such Loan was not an Eligible Loan as aforesaid has been raised in litigation . . . and, in the course of such litigation, been judicially confirmed. . . .
> (Exhibit A—Attachment, letter of *** (February 8, 1983).)

In my opinion, the proposed revisions, if they are adopted, operate to provide a contractual remedy for violation of the terms of the contract. A demand for repurchase of a loan because it was not an Eligible Loan when made and when the participation was sold does not result in a recourse agreement nor operate to alter the pro rata sharing of the credit or market risk required in a true participation. If the proposed revisions are adopted, the agreement will not be a borrowing/lending transaction because of this limited provision for repurchase. This opinion assumes that there are no other provisions written or oral which would require that the participation be deemed a borrowing/lending transaction.

Repayment Obligation of Originating Bank

In my opinion, the provision for payment by the originating bank of the interest and principal due on a participation in the absence of payment by the borrower negates the pro rata sharing of the credit risk required for a true participation. Section 2.06(a) of the submitted Master Participation Agreement, Repayment of the Participations, Collections, provides

> if the originating Bank has not previously received a payment of principal or interest nor made an application of funds in connection with a loan in which the participant has purchased a participation, the accrued participation interest will be due and payable on the last day of the Participation Rate Period . . .
> (*See* Master Participation Agreement Section 2.06(a).)

Such a provision is characteristic of a borrowing/lending transaction. In a true participation, the participant must look to the underlying obligor for repayment and not to the originating bank. Here the participant is allowed to look to the originating bank. The subject provision provides recourse to the originating bank. Because it provides recourse and negates a pro rata sharing of credit risk, the transaction is a borrowing/lending transaction.

The letter of February 8, 1983, from Mr. *** contains a proposed revision of Section 2.06(a) which does not contain the cited language. If the proposed revision of Section 2.06(a) is adopted, there would no longer be a negation of the pro rata sharing of credit risk required in a true participation.

Interpretive Ruling 7.1135

In my opinion, the provision for repayment of (Bank) first when the loan is in default negates the pro rata sharing of market and credit risk required to be present in a true participation.

Interpretive Ruling 7.1135 (12 CFR 7.1135) provides

> Where a participation in a loan is sold to another bank the agreement may provide that repayment must first be applied to the share sold. Since one of the purposes of such a sale may be to reduce the bank's retention of loans which may exceed its lending limits, the agreement should as a matter of prudent banking practice also provide that in the event of default or a comparable event defined in the agreement, the participants should share in all subsequent repayments and collections in proportion to the percentage of participation at the time of the happening of the event.
> (12 CFR 7.1135)

The (ACC Bank) proposal states:

> (Bank) purchases its participations in a loan on a last-in first-out basis. Whenever the originating bank receives a payment of principal or interest or makes an application of funds in connection with a loan in which (Bank) has purchased a Participation, the Originating Bank shall pay over to (Bank) an amount equal to the amount of the payment received or application of funds. . .
> (*See* Operations Manual page VII-4E, Repayment of Participations. *See also* Master Participation Agreement Section 2.06.)

The repayment provision requires payment to (Bank) first when the loan is in default. (*See* Section 2.06(a) Master Participation Agreement, Repayment of the Participation; Collections, which refers to "funds derived from the liquidation of or foreclosure upon any Related Security . . .") Such non-pro rata repayment upon default does not comply with the 7.1135 requirement of "payment in proportion to the percentage of participation at the time of happening of the . . .[default]." Because it does not comply with 7.1135, the proposed participation, as drafted, is a borrowing/lending transaction.

The provision for no payment to the originating banks until (Bank) has been fully repaid negates, in the case of default, the sharing of credit risk which must be present in a true participation. Therefore, the transaction is a borrowing/lending transaction. As a borrowing/lending transaction, the total amount of the participated loan will be subject to the lending limit of the originating bank. It may also be a deposit in the originating bank subject to Federal Reserve Regulations D and Q (12 CFR 204 and 217). I express no opinion on this issue. You may want to discuss this matter with the local Federal Reserve Bank.

The parties to the proposed agreement have requested a waiver of Interpretive Ruling 7.1135 as it applies to the program. The waiver is requested as a matter of policy because of the need for banks to obtain credit to help farmers and ranchers. There is no provision in 12 USC 84 to allow its waiver for loans that are beneficial to a particular segment of the economy or even to the economy as a whole. Indeed, it can be said that most commercial, farming, and ranching loans are ultimately beneficial to society.

Section 7.1135, a longstanding interpretation of this Office, like 12 USC 84 under which it is promulgated, requires that the bank which has the credit risk of a loan have the 12 USC 84 liability charged against it. Waiver would violate the policy incorporated in 12 CFR 7.1135 as well as the purpose of 12 USC 84, since the risk of repayment of the participated portion of a loan will remain with the selling bank while the 12 USC 84 liability would be charged to the participating bank. Waiver would also elevate form over substance, a practice which this Office has historically refused to follow. Therefore, I must deny your request for a waiver of 12 CFR 7.1135.

### Purchase of (ACC) Subordinated Notes

In order to take part in the proposed program, an originating bank will be required to purchase subordinated capital notes of (ACC). While the documents do not provide a formula to identify the amount of such notes a bank will be required to purchase, in a letter of January 18, 1983, Mr. *** provided a schedule which indicates the amount each member originating bank will be assessed and the amount of deposits upon which such assessments will be based. I understand that the maximum amount of subordinated capital notes which an originating bank will be required to purchase is $14,750.

The purchase of such subordinated capital notes is a permissible activity for the originating banks. I will first attempt to characterize the (ACC) capital notes. Such notes may be purchased by a national bank if they are an investment security permitted for purchase. Section 24(7), 12 USC 24(7), provides for the purchase of investment securities "under such limitations and restrictions as the Comptroller of the Currency may by regulations prescribe." Section 1.3, 12 CFR 1.3, defines an investment security as a marketable obligation in the form of a bond, note, or debenture which is commonly regarded as an investment security. It is doubtful that the (ACC) capital notes are marketable obligations. If the (ACC) capital note is marketable and is an investment security, it is a type III security because it is not within the definition of a type I or II security. Section 1.7, 12 CFR 1.7, provides that a bank may not hold at any time types II and/or III securities of any one obligor in a total amount in excess of 10 percent of the bank's capital and surplus. Thus if the subordinated capital notes are investment securities, the national bank may purchase a limited amount of these capital notes.

However, even if these are not investment securities, the originating banks may purchase the capital notes

if they are evidence of an extension of credit to (ACC). In the (ACC)/Originating Bank Agreement, Article V describes the purchase of the capital note. The note "evidences the obligation of (ACC) to repay . . . upon demand by the Bank." The provision in addition lists the interest rate payable by (ACC) to the originating bank. Exhibit A of the (ACC)/Originating Bank Agreement represents the form to be used by the parties. Provision 10, entitled Intent of Parties, states that both parties intend the note to be a commercial loan transaction between the parties. The proposal is evidence that the parties regard the purchase of the capital note as a borrowing/lending transaction between (ACC) and the originating bank. Further evidence that the originating bank regards the purchase of the notes as a loan would be the fact that the bank makes its usual credit analysis before purchasing the capital note. The terms of the agreement for purchase of the capital note, including payment upon demand by the bank, support a view that the capital note is evidence of the extension of credit from the originating bank to (ACC).

If the capital note is evidence of a loan from the originating bank to (ACC), the loan is subject to lending limits under 12 USC 84. The schedule for assessments of amounts of capital notes to be purchased by the originating banks sets the maximum amount to be purchased at $14,750 per bank. This amount is probably less than 10 percent of unimpaired capital and surplus which is the maximum amount a national bank may loan to a single customer.

The notes are subordinated in right of payment to the prior payments in full of all obligations of (ACC) to the participant and to any other indebtedness or obligations of (ACC) ranking senior to or *"pari passu"* with the obligations. *See* Exhibit C, Terms of Subordination Section 1. In my opinion, the fact that these notes are subordinated to other obligations does not make their purchase impermissible for a national bank. An examiner may note whether their purchase constitutes a sound banking practice because they are subordinated and whether they are a bankable asset.

In my opinion, an originating bank legally may purchase the subordinated capital notes of (ACC). If the notes are evidence of a loan their purchase is subject to the 10 percent lending limit of 12 USC 84. If the notes are an investment security in which a national bank may invest, their purchase is subject to the 10 percent limit of 12 CFR 1.3

Summary

In my opinion, the transaction as submitted is a borrowing/lending transaction because of the repurchase agreement (Section 5.02 iii of the Master Participation Agreement), the repayment by the originating bank in the absence of prior payment by the borrower (Section 2.06(a)), and the non-pro rata repayment of the participation upon default (Section 2.06). Because the transaction is a borrowing/lending transaction, the total amount of the loan will remain subject to the lending limit of the originating bank. The transaction could also be evaluated as an imprudent borrowing by the originating bank from (Bank).

If the revisions proposed in the February 8, 1983 letter from Mr. *** are adopted, the repurchase agreement and the repayment without prior payment no longer affect the proposal. The non-pro rata repayment of the participation upon default remains in the proposed agreement, and which therefore does not comport with 12 CFR 7.1135. Thus, the proposal is not a true participation.

Any earlier opinion inconsistent with the opinion expressed in this letter should be disregarded. The originating bank is further advised against intentionally selling a participation in loans which it knows are not eligible for purchase by (Bank) so that the originating bank will have to repurchase the participation at some later time. Finally, the Office does not have the resources or personnel required to review all documents submitted to banks in connection with an agreement. The banks are advised to consult with their own counsel in order to determine that a document employed in this agreement is suitable for its use. All opinions expressed herein are based on my understanding of the facts. Different or additional facts brought to our attention may require a revision of the opinions expressed herein.

I hope this has been responsive to your inquiry.

Brian W. Smith
Chief Counsel

* * *

## 257—April 12, 1983

This responds to your letter of November 29, 1982 on behalf of (Bank) in which you request an opinion on whether the Bank may underwrite and deal in certain mortgage-backed pass-through certificates without

[illegible] Section 16 of the Glass-Steagall Act (12 USC 24 Seventh)

## The Proposal

The Bank seeks to engage in the sale of Mortgage-Backed Pass-Through Certificates (Pass-Through Certificates) evidencing undivided interests in pools (Pools) of project mortgage loans (Loans) insured by the Federal Housing Administration (FHA). The Loans placed in the Pools will be purchased by the Bank from the Government National Mortgage Association (GNMA) pursuant to bids submitted to GNMA in its auctions conducted from time to time for the sale of FHA-insured project loans. The Loans will be for low and moderate income housing, issued under 12 USC 1713, 1715k, 1715 (d)(3) and (d)(4), 1715v, and 1715w. All of the Loans will be insured by the FHA pursuant to 12 USC 1713.

The structure of the Pools is subject to FHA regulations. Each Pool must be established in such a manner as to qualify for FHA recognition of the trustee of the Pool as the mortgagee of record for all purposes (including the processing and payment of any insurance claims that may result from default on a Loan). This formal recognition will be manifested by the receipt of a waiver from the FHA affirming the trustee as the principal mortgagee with whom the FHA must deal respecting the rights, benefits, and obligations of the mortgagee under the contract of insurance.

Each Pool will be established pursuant to a Pooling and Servicing Agreement (Agreement) between the Bank, a servicer, and a trustee.[1] Pursuant to the Agreement, Loans purchased from GNMA by the Bank will be assigned without recourse to a trustee established solely for the purpose of holding the Loans in exchange for Pass-Through Certificates evidencing undivided interests in the Pool of Loans. The Pass-Through Certificates will then be sold by the Bank to investors. The Bank also plans to deal in the Pass-Through Certificates should a secondary market for the Pass-Through Certificates develop.

The servicer will be obligated to service the Loans pursuant to the Agreement and, in this connection, will be committed to remit payments and any other collections on the Loans (less a servicing fee retained by it) to Certificateholders on a specified day of each month. In the event of a default on any Loan, the servicer will be obligated to pursue on behalf of Certificateholders any rights against the FHA under its insurance of the defaulted Loan. Payments and collections will be deposited on receipt by the servicer in the trust for the related Pool, so that amounts owing to Certificateholders will never be commingled with general funds of the servicer. Accordingly, the credit of the servicer will not be a factor in monthly distributions of Loan collections to Certificateholders.[3]

In brief, the servicing of the Loans under the Agreement will be carried on in a manner which is functionally and substantively similar to the manner in which individual whole loans are serviced for investors. An investor who owns all of the Certificates in a particular Pool would be effectively in the same position as an investor who owns legal title to all of the Loans in that Pool and contracts with a third party to service the Loans.

## Legal Issues

Section 16 of the Glass-Steagall Act (12 USC 24(7)), generally prohibits national banks from underwriting or dealing in securities other than obligations of the United States and general obligations of a state or a political subdivision thereof. However, the statute provides exceptions for a number of specific obligations, including:

> *** obligations which are insured by the Secretary of Housing and Urban Development (hereinafter in this sentence referred to as the "Secretary") pursuant to section 1713 of this title, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States ***

Pursuant to 12 USC 1713 the Secretary of Housing and Urban Development is authorized to insure certain qualifying first mortgages. In the event of default by the mortgagor, the mortgagee shall receive debentures in the amount specified in the statute. (12 USC 1713(g)) Significantly, Section 1713(i) explicitly provides that the debentures issued in payment of defaulted mortgages "shall be fully and unconditionally guaranteed as to principal and interest by the United States."

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[1] [illegible]

[2] Some Loans will return cash upon default whereas others will remit debentures.

[3] The Agreement might provide that the servicer will make advances to Certificateholders in respect of delinquencies on Loans which have not been, or are not yet eligible to be, assigned to the FHA under its insurance contract. The purpose for the advances would be to assure Certificateholders a more regular flow of payments and would not be designed as protection against loss. Any advance made by the servicer would be reimbursable to it from Loan collections so that, in terms of aggregate receipts by Certificateholders, advances would not increase the amounts therwise receivable by them. To the extent that the Agreement includes an advance mechanism, the Pools will operate essentially the same way as GNMA Mortgage-Backed Pass-Through Certificates.

You have indicated that all the Loans placed in the proposed Pools are to be insured pursuant to Section 1713 with the above noted guarantee. Accordingly, I agree that those Loans would qualify under the quoted exception of 12 USC 24(7).

I also conclude that the proposed Pass-Through Certificates would similarly qualify under that exception. Each Certificate represents an undivided interest in a Pool of loans insured under Section 1713. The Pooling and Security Agreement obligates the servicer to remit all payments and collections (less a servicing fee) to the Certificateholders and to pursue on behalf of the Certificateholders any rights against the Department of Housing and Urban Development under Section 1713. The Pool is not an obligor to the underlying Loans but rather is merely a pass-through vehicle; the Certificateholders have essentially the same rights, liabilities, and risks as if they were the direct owners of the Loans. Thus, the Pool is, in all respects material to Section 16, legally transparent and the Pass-Through Certificates are not substantively different from the underlying Loans in the Pool. Consequently, the Pass-Through Certificates are exempt under the same provision of Section 24(7) which exempts loans placed in the Pass-Through Pools.

In this context, it is also relevant to note the provision of Section 21 of the Glass-Steagall Act (12 USC 378). That section expressly provides that nothing therein "shall be construed as affecting in any way such right as any bank . . . may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans on real estate. . . ." As stated in previous decisions of this Office, this provision clearly authorizes national banks to purchase and sell real estate loans, as well as pass-through certificates representing such loans.[4]

### Conclusion

In my opinion, the Bank's proposal does not violate the Glass-Steagall Act. In reaching this conclusion, I am relying upon the accuracy of the representations in your letter.

Brian W. Smith
Chief Counsel

* * *

[4] OCC Press Release of March 30, 1977, and letter to Leland S Prussia (March 29, 1977), CCH Fed Banking L Rep ¶97 093, Interpretive Letter No 25 (Feb 14, 1978) CCH Fed Banking L Rep ¶85 100, Interpretive Letter No 41 (May 18 1978) CCH Fed Banking L Rep ¶85,144 Interpretive Letter No 92 (April 20 1979) CCH Fed Banking L Rep ¶85 167

## 258—June 3, 1983

This responds to your letter of April 22, 1983, asking whether 12 CFR 2 prohibits officers, directors, shareholders and employees of a national bank from purchasing stock in the insurance company that underwrites the credit life insurance risks on loans made by the bank.

You indicate that the bank in question now receives the maximum commission allowed by state law, so in your view there is no concern about the bank's being deprived of that source of income.

In 1978, we issued Interpretive Letter No. 76 which concluded that it is an unsound banking practice (within the meaning of 12 USC 1818(b)) and inconsistent with a national bank director's oath under 12 USC 73 and with the oversight repsonsibilities placed on national bank directors by 12 USC 24 (Seventh) for a national bank to obtain credit life coverage from an underwriter that reinsures its liability with a reinsurance company owned by the bank's officers and directors.

This ruling was directed at the practice whereby the bank's underwriter would reinsure its liability with a reinsurance company which it sponsored and which was owned largely by bank employees, directors or principal shareholders. The rationale set forth in the ruling applies irrespective of whether the bank is receiving the maximum rate of commission. It would also apply to a situation where bank officers, directors or principal shareholders own a substantial portion of a single class or series of the underwriter's or reinsurance company's stock, the dividends on which are tied to the bank's credit life sales or loss experience. Again, the amount of commissions received by the bank would be irrelevant. On the other hand, we did not mean to suggest that a bank officer or director cannot purchase a relatively small number of shares of a publicly traded underwriter such as Aetna, Prudential, etc., that underwrites the bank's credit life insurance.

Since the rationale of the 1978 ruling was predicated on considerations other than 12 CFR 2, our Washington office has not made a definitive interpretation of whether such an investment also violates the regulation. (The 1978 ruling might be read as suggesting that the investment does not violate 12 CFR 2.) However, one of our regional offices has ruled in an identical situation that "the same rationale which underlies 12 CFR 2 is applicable to the reinsurance situation." See Interpretive Letter No 187, CCH Fed Banking L Rep ¶85,268 at p 77, 405 77 406 where it was pointed out, a bank insider utilized his position to receive

[illegible] bank business, which income was not shared with other stockholders.

To this I would add that some of the dangers to which 12 CFR 2 was addressed are present when insiders invest in a reinsurance company that reinsures the bank's credit life coverage. These dangers, more fully described in the document accompanying the promulgation of 12 CFR 2, 42 Fed. Reg. 48518 at 48524 (1977), are that receipt of dividends from the investment creates a conflict between the insider's duty to assure that the bank's loans are sound from a credit standpoint and his natural inclination to generate a better return on his investment by making as many loans, including unsound loans with credit life attached, as possible. This also raises antitrust problems.

Since these dangers are present, I believe that the investment by bank insiders in a reinsurance company as described above violates 12 CFR 2.4, even though the bank is receiving the maximum commission allowed by law. As previously noted, such an investment would also be inconsistent with 12 USC 73 and 12 USC 24 (Seventh) and 12 USC 1818(b).

It should be noted that the Comptroller of the Currency amended 12 CFR 2 last summer to expressly permit the payment of bonuses to loan officers out of bank funds under certain limitations. See 12 CFR 2.4(a), as amended. This codified the Comptroller's previous policy on bonuses, and it provides a healthier means of encouraging bankers to sell credit life insurance than investment in a reinsurance company reinsuring the bank's coverage.

Ford Barrett
Assistant Chief Counsel

* * *

## 259—June 3, 1983

This is in response to your letter of November 15, 1982, requesting an interpretation of the term "covered transaction" as used in Interpretive Ruling 7.3025 (12 CFR 7.3025), entitled "Other real estate owned" (OREO). Covered transactions are sales of OREO where less than 10 percent of the total sales price is in cash, where there is financing by the bank of all or a portion of the sales price on terms more favorable than those customarily required by the bank where its only involvement is as lender, or where the transaction does not transfer from the bank to the buyer the usual risks of, whereby [illegible] of the rewards of ownership. [illegible] (Bank) wishes to know whether [illegible] other real estate owned at less than a market rate of interest would be a covered transaction, assuming that the required cash down payment has been received and the bank has transferred the risks and benefits of ownership to the buyer. Specifically, the bank is inquiring whether such a rate of interest would be a term "... more favorable than those customarily required by the bank where its only involvement is as lender."

As I understand the facts, (Bank) carried on its books until December 1981, approximately $1.4 million of mortgages as covered transactions solely because they had less than a market rate of interest. The cash down payment and transfer of risks and benefits required by 12 CFR 7.3025(b) were not at issue. In December 1981, the bank decided to "reclassify" the subject mortgages by ending their treatment as covered transactions; that is, by removing them from the category of OREO. This action was based, in part, on a September 18, 1980, opinion letter from Wallace S. Nathan, Regional Counsel, Second National Bank Region, to Bank. In that letter, Mr. Nathan quoted Andrew J. Levinson, an attorney in the Legal Advisory Services Division at the time, as stating that "more favorable" terms contemplated terms permitting continued control by the bank over property rather than terms affording the buyer more generous interest rates or payment arrangements. Mr. Nathan concluded, on the basis of this opinion, that if the only term more favorable to the purchaser of OREO was the rate of interest charged on the new financing, the sale was not a covered transaction within the meaning of 12 CFR 7.3025(b) and, therefore, did not have to be accounted for in accordance with 12 CFR 7.3025.

The bank asserts that requiring it to treat sales of other real estate owned as covered transactions solely on the basis of interest rate considerations is inconsistent with Generally Accepted Accounting Principles (GAAP) as set out particularly in Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," (FASB Statement No. 15) (1977) and Accounting Principles Board Opinion No. 21, "Interest on Receivables and Payables," (APB Opinion No. 21) (1971). According to (Bank) inclusion of an "interest rate test [for covered transactions] penalizes the Bank to the extent that even though discounting losses are recognized currently and a market rate of return earned prospectively, mortgages remain classified in other real estate and net gains consequently deferred potentially for as long as 30 years."

The bank makes several other arguments in support of its contention that the subject transactions should be considered closed. It maintains that appraisals required by the ruling are expensive and, as a practical matter, cannot be performed because physical access to the properties in question is not permitted by

the respective mortgage instruments. It is unclear whether every involved property is so affected. In addition, the bank cites a number of "business" reasons why a lesser than market rate of interest should not be viewed as a more favorable term. The bank indicates that such rates were extended because the property involved could not support the debt service required by exceptionally high prime rates. Similarly, the bank states that it sought to make the best sales that were economically feasible and that although below market rates were given on such sales, the terms were actually not more favorable to the borrower/purchasers because the bank used shorter loan maturities and would therefore have opportunities to refinance later at higher rates.

We have carefully reviewed the information you have submitted. In our view, the sale and financing by a bank of its OREO property at less than prevailing rates is not "financing by the bank . . . on terms more favorable than these customarily required by the bank where its only involvement is as lender; . . ." That is, such sales are not covered transactions within the meaning of Section 7.3025, provided the required down payment has been received and the bank has transferred the risks and benefits of ownership to the buyer. The following analysis sets out the reasoning underlying this conclusion.

Prior to 1979 the Comptroller's Office had experienced some problems in providing guidance to national banks on the proper accounting treatment for troubled real estate loans and sales of property received in satisfaction thereof. As such, it sought to develop "[s]tandards for determining whether a bank, has, in fact, meaningfully disposed of other real estate owned." 44 Fed. Reg. 46429 (August 8, 1979). To this end, the Office reviewed generally accepted accounting standards and bank supervisory concerns in order to design an interpretive ruling which would guide banks in accounting for real property acquired by foreclosure or otherwise as a result of a troubled debt restructuring. The present Section 7.3025 is the result of that effort. The ruling reflects generally accepted accounting principles as embodied primarily in FASB Statement No. 15 and an industry accounting guide, "Accounting for Profit Recognition on Sales of Real Estate," published by the American Institute of Certified Public Accountants (AICPA Guide) (1973).

FASB Statement No. 15 indicates that a bank which receives real estate in full satisfaction of a debt previously contracted (DPC) must record that property at its fair value at the time of the restructuring. If the bank's recorded investment in the receivable exceeds the fair value, the excess is to be treated as a loss or charged against a reserve for possible loan losses. *See* FASB Statement No. 15, Section 28. The concepts of FASB Statement No. 15 are incorporated in the present OREO ruling. *See* 12 CFR 7.3025(1)(d) and (g).

The AICPA Guide, on the other hand, addresses the subject of profit recognition in resales of property by the bank. It requires that if profit is to be fully recognized for accounting purposes at the time an asset is sold, then the (1) collectibility of the sales price must be reasonably assured and (2) the seller must not be required to perform significant activities after a sale in order to earn any profit therefrom. Unless both conditions are satisfied, the AICPA Guide requires that all or part of the profit on the sale be postponed. AICPA Guide, Section 7. The Financial Accounting Standards Board reaffirmed the collectibility and transfer of risks and benefits requirements of the AICPA Guide in Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate," (FASB Statement No. 66) issued in 1982.

The AICPA Guide and FASB Statement No. 66 are intended to ensure that certain economic actions take place before OREO or any real estate will be deemed to have been "meaningfully" disposed of for accounting purposes; that is, before profit may be fully recognized. For example, both pronouncements indicate that a key factor in determining collectibility of the sales price in an OREO sale is the size of the buyer's initial investment or down payment. *See* AICPA Guide, Section 18; FASB Statement No. 66, Section 5. These issuances also require the seller to transfer the usual risks and rewards of ownership associated with the property to the buyer, as demonstration that the seller is no longer obliged to perform significant activities concerning the property. As you know, both of these requirements were incorporated in the Office definition of covered transactions, primarily on the basis of the AICPA Guide since FASB Statement No. 66 was not in existence at the time.

The supplementary information or preamble which accompanied issuance of 12 CFR 7.3025 repeatedly makes it clear that a primary purpose of the ruling was to harmonize the accounting methods of national banks with generally accepted accounting standards insofar as the standards relate to OREO. *See* 45 Fed. Reg. 46428-46431. These standards—namely FASB Statement No. 15 and the AICPA Guide—serve as the

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[1] "Recorded investment in the receivable [illegible] Statement No. 15, Section 28, fn. 1[illegible] [illegible] receivable or defaulted [illegible] accrued interest and unamortized [illegible] charges or acquisition [illegible] write down of the investment." [illegible] phrase "recorded investment [illegible] [illegible] FASB Statement No. [illegible]

[illegible] of the OREO and were discussed above. Although these standards require DPC property be appropriately valued, that a bank obtain a certain down payment and transfer the risks and benefits of ownership to the buyer before it may fully recognize a profit, they do not require that resales of OREO or any real estate carry a market rate of interest as a precondition to profit recognition.

Rather, there is an accounting requirement that resales of property at a below market rate or an unstated rate of interest be discounted to adequately reflect the present value of the note received.[3] FASB Statement No. 15, Sections 104–105, indicates that discounting is mandated by Accounting Principles Board Opinion No. 21, cited above. APB Opinion No. 21 applies to business transactions involving the exchange of property for a note or similar instrument. Notes include mortgage notes, whether secured or unsecured. If a note exchanged for property is non-interest bearing or has a stated rate of interest different from the prevailing rate, APB Opinion No. 21 states that the note may not reasonably represent the present value of the consideration given or received in the exchange if recorded at face value. According to APB Opinion No. 21, unless the note is recorded at its present value, the sales price and profit or loss to a seller is misstated, and interest income and interest expense in subsequent reporting periods is also misstated. APB Opinion No. 21, Section 1.

When a note is traded in the open market, the market rate of interest and market value of the note provide evidence of its present value. If there is no market, a note that stipulates no interest rate or a rate of interest which is clearly low in relation to market conditions should have its present value determined by discounting all future payments on the basis of an approximate or imputed rate of interest. *See* APB Opinion No. 21, Sections 9, 10, and 12–14. When the discount is determined, it should be reported in the accounts as a deduction to the face amount of the note. In other words, the discount is the difference between the face value of the note and its present value based on the imputed rate of interest. Amortization of the discount should be reported as interest in the statement of income.

Under the facts presented, *** has reclassified approximately $1.4 million of below market rate OREO contracts from a covered status to a closed status (see 12 CFR 7.3025(b)). This was done on the basis of a letter from Assistant Counsel Nathan, which took the position that use of a less than market rate of interest was not a more favorable term, that is, such rate did not require that the subject mortgages be treated as covered transactions. The rationale was that the phrase "more favorable" contemplated terms permitting continued control by a bank over property rather than terms affording the buyer more generous interest rates or payment arrangements.

In my opinion, Mr. Nathan's conclusion is correct—a rate of interest less than the prevailing rate is not a more favorable term. However, this is not so because the phrase "more favorable" contemplates terms permitting continued control by a bank over the property as opposed to terms affording the buyer more generous interest rates or payment terms. Whether there is continued control is really the same as asking whether there has been a transfer of the risks and benefits of ownership, a matter not at issue here. *See* AICPA Guide; 12 CFR 7.3025.

Rather, a below market rate of interest is not a more favorable term because the accounting principles underying 12 CFR 7.3025 do not require it to be treated as such. These principles, which were discussed above, require that OREO property be meaningfully or economically disposed of before an OREO transaction is considered closed. To dispose of the property meaningfully or economically, as opposed to legally, the collectibility of the sales price must be reasonably assured and the seller must not be continuously involved with the property in order to guarantee its repayment. Otherwise, the full profit may not be recognized at the time of sale. *See* AICPA Guide. The previously cited accounting standards are embodied in Section 7.3025 in the form of a required 10 percent down payment and transfer of risks and benefits test. *See* 12 CFR 7.3025(b) (definition of covered transaction). Since the bank has apparently received the required down payment and transferred the risks and benefits of ownership in connection with each of the subject properties, it is my opinion that *** has meaningfully disposed of such properties. Therefore,

[illegible]

[3] The following example illustrates how an imputed interest rate affects the value of a note. Assume a bank sells OREO property and receives the required down payment and a signed $1,000 note bearing interest at 10 percent annually from the purchaser. All the risks and benefits of ownership have been transferred. If the prevailing interest rate is 10 percent, the present value and proceeds of the note at issuance would be $1,000. However, if the prevailing market rate is 12 percent, the present value and proceeds of the note (if sold in the market) would be $851. The $149 difference, or discount, is the result of an imputed interest rate of 12 percent. Under APB Opinion No. 21, the $149 discount would have to be reflected in the accounts of the bank as a deduction to the face amount of the note. See APB Opinion No. 21, Sections 16–19 for a description and illustration of various present value calculations.

the bank is not required to treat the subject transactions as covered for purposes of Section 7 3025.

The fact that these particular sales of OREO were made at less than prevailing rates of interest does not preclude the bank from treating them as closed transactions, provided the notes received are discounted in accordance with APB Opinion No. 21. *See also* FASB Statement No. 15, Sections 104–105. As discussed above, if there is no market for a note the discount must be taken on the basis of an imputed rate of interest and deducted from the face value of the note to obtain its present value

Charles F Byrd
Acting Director
Legal Advisory Services Division

* * *

# Merger Decisions—April 1 to June 30, 1983

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May 1, 1983
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June 30, 1983
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Consolidation 162

## *I. Mergers consummated involving two or more operating banks.*

BANK ONE OF YOUNGSTOWN, NATIONAL ASSOCIATION,
Youngstown, Ohio, and Heritage Bank, Toronto, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Heritage Bank, Toronto, Ohio, with | $296,216,893 | 25 | ——— |
| and Bank One of Youngstown, National Association, Youngstown, Ohio (13586), which had | 465,001,794 | 14 | ——— |
| merged April 1, 1983, under charter of the latter and with the title "Bank One of Eastern Ohio, National Association." The merged bank at date of merger had | 734,218,687 | ——— | 39 |

### COMPTROLLER'S DECISION

On July 6, 1982, application was made to the OCC for authorization to merge Heritage Bank, Toronto, Ohio (Heritage), into Bank One of Youngstown, National Association, Youngstown, Ohio (BOY), under charter of the latter and with the title of "Bank One of Eastern Ohio, National Association." The application is based on an agreement finalized between Heritage and BOY on June 30, 1982.

Bank One of Youngstown, National Association, a newly acquired subsidiary of Banc One Corporation, is headquartered in Youngstown and operates a 14-branch system throughout Mahoning and Trumbull counties. It is the third largest bank in the trade area and controlled approximately 13.49 percent of commercial bank deposits in the trade area as of June 30, 1980. Banc One Corporation controls 22 subsidiary banking institutions and five nonbanking subsidiaries engaging in finance-related businesses. Banc One is the third largest commercial banking organization in Ohio. Heritage Bank, the only subsidiary of Heritage Bancorp, Inc., operates 24 branches throughout Jefferson, Columbiana, Harrison, and Belmont counties. As of December 31, 1981, the bank had total deposits of $235.5 million.

The relevant geographic market of Heritage consists of Jefferson, Columbiana, Harrison and Belmont counties in eastern Ohio as well as portions of adjacent counties in West Virginia The relevant geographic market of BOY is Mahoning and Trumbull counties. Although Mahoning and Columbiana counties are contiguous, the relevant markets do not overlap. There is no significant existing competition between Heritage and BOY or any other subsidiary banks of Banc One Corporation. Competition in the combined market areas is provided by 27 commercial banking organizations. Aggressive competition is also provided by savings and loans, finance companies, and mortgage companies.

Consummation of this merger will replace one competitor in the relevant market with another financially stronger competitor and will allow BOY and Banc One Corporation to enter a new market where they are not currently represented The merger can be expected to have a positive effect on competition.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources and future prospects of both banks are considered satisfactory. After the consummation of the proposed merger, the resulting bank will be able to draw on the financial and managerial resources of its parent, Banc One Corporation. Consequently, the future prospects of the resulting bank appear favorable, as does its ability to effectively further enhance its competitiveness in the market.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory

We have analyzed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it will not lessen competition in the relevant market Accordingly, the application is approved
December 27, 1982

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would be not significantly adverse to competition

* * *

## COMMUNITY BANK AND TRUST, NATIONAL ASSOCIATION, Fairmont, W. Va., and Mountaineer National Bank, Morgantown, W. Va.

| Merging banks and type of transaction | Total assets | Banking offices In operation | Banking offices To be operated |
|---|---|---|---|
| Mountaineer National Bank, Morgantown, W. Va. (16687), with | $ 22,604,947 | 2 | ——— |
| and Community Bank and Trust, National Association, Fairmont, W. Va. (15760), which had | 109,155,646 | 2 | ——— |
| merged April 1, 1983, under charter and title of the latter. The merged bank at date of merger had | 132,887,397 | ——— | 4 |

### COMPTROLLER'S DECISION

On December 9, 1982, application was made to the OCC for prior authorization to merge Mountaineer National Bank, Morgantown, W. Va. (Mountaineer), into Community Bank and Trust, National Association, Fairmont, W. Va. (CBT). This application is based on an agreement finalized between Mountaineer and CBT on November 15, 1982.

As of September 30, 1982, CBT had total deposits of $82 million and operated one branch in Marion County. On the same date Mountaineer had total deposits of $15.8 million and operated its only branch in Monongalia County. The banks are affiliated through common ownership (a majority of CBT's shareholders are also shareholders of Mountaineer) and interlocking directors.

The relevant geographic market for this proposal is Monongalia County, the area from which Mountaineer derives over 75 percent of its deposits and operates its banking offices. The market is served by six commercial banks having total deposits of $337.5 million. Mountaineer ranks fifth in market share with 4.7 percent. CBT derives only a nominal volume of its business from the relevant market and its nearest office is 18 miles away. The proponents do not currently compete directly, therefore, consummation of this proposal will have no significant effect on competition.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are considered satisfactory. The future prospects of the proponent banks, independently and in combination, are favorable, as are the expected effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its bank regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it does not lessen competition in the relevant market. Accordingly, the application is approved.
March 1, 1983

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

NEW JERSEY NATIONAL BANK,
Trenton, N.J., and One Branch of Citizens State Bank of New Jersey, Lacey Township, N.J

| Names of banks and type of transaction | Total assets* | [illegible] | [illegible] |
|---|---|---|---|
| One Branch of Citizens State Bank of New Jersey, Lacey Township, N.J., with | $ 104,556,000 | 1 | |
| was purchased April 1, 1983, by New Jersey National Bank, Trenton, N.J. (1327), which had | 1,361,286,000 | 53 | |
| After the purchase was effected, the receiving bank had | | | 54 |

## COMPTROLLER'S DECISION

An application was filed on December 3, 1982, with the OCC by New Jersey National Bank, Trenton, N.J. (NJNB), for approval to purchase the assets and assume the liabilities of the Point Pleasant branch of Citizens State Bank of New Jersey, Lacey Township, N.J. (Citizens). The application is based upon a written agreement executed by the banks on November 18, 1982.

As of September 30, 1982, NJNB held total deposits of $1 billion and operated 52 branches in a nine-county section of central New Jersey. NJNB is a wholly-owned subsidiary of New Jersey National Corporation, Trenton, New Jersey. On the same date Citizens had total deposits of $94 million and operated four branches in Ocean County.

The relevant geographic market for this proposal encompasses the municipalities of Point Pleasant Boro and Point Pleasant Beach, as well as the south-eastern portion of Brick Township. This area is bordered on the east by the Atlantic Ocean, the Metedeconk River to the south, the Manasquan River to the north and the Garden State Parkway to the west. The relevant market is served by five commercial banks, operating 11 branches and having total deposits of $179 million. Citizens' Point Pleasant branch holds $11 million in deposits and ranks fourth in market share with 6 percent. NJNB derives only a nominal volume of its business from the relevant market and its nearest office is six miles away.

The proponents do not currently compete directly, therefore, consummation of this proposal will merely replace one competitor in the market with another, and enable NJNB to enter a market where it currently does not compete.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are considered satisfactory. The future prospects of the proponent banks, independently and in combination, are favorable, as are the expected effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it does not lessen competition in the relevant market. Accordingly, the application is approved.
February 28, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* Asset figures are of whole bank as of March 31, 1983, report of condition. Information as of date of consummation was not available at press time.

* * *

## SECURITY TRUST COMPANY OF PALM BEACH,
Palm Beach, Fla., and Northern Trust Bank of Florida/Palm Beach, National Association, Palm Beach, Fla.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Security Trust Company of Palm Beach, Palm Beach, Fla., with | $1,780,856 | 1 | ——— |
| and Northern Trust Bank of Florida Palm Beach, National Association, Palm Beach, Fla. (17720), which had | 1,034,283 | 0 | ——— |
| merged April 4, 1983, under charter and title of the latter. The merged bank at date of merger had | 2,815,139 | ——— | 1 |

### COMPTROLLER'S DECISION

Northern Trust Bank of Florida/Palm Beach, National Association (organizing), Palm Beach, Fla. (Northern/Palm Beach), is being organized by Northern Trust Corporation, Chicago, Ill. The merger of Security Trust Company of Palm Beach, Palm Beach, Fla. (Security) into Northern/Palm Beach, is a part of a corporate reorganization in which the fiduciary business of Security will be performed as an adjunct to commercial banking services.

The merger combines a non-operating bank with an existing trust company. Northern Trust Corporation does not currently own any subsidiary banks operating in the Palm Beach market. As such, this proposal presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of the bank and the trust company, and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will be in the position to offer a complete line of banking services, in addition to fiduciary powers, to the Palm Beach community. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed merger.
February 22, 1983

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## FLORIDA NATIONAL BANK,
Jacksonville, Fla., and Peoples Bank of St. Augustine, St. Augustine, Fla.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Peoples Bank of St. Augustine, St. Augustine, Fla., with | $ 12,988,248 | 1 | ——— |
| and Florida National Bank, Jacksonville, Fla. (8321), which had | 1,001,931,921 | 18 | ——— |
| merged April 8, 1983, under charter and title of the latter. The merged bank at date of merger had | 1,020,731,384 | ——— | 19 |

### COMPTROLLER'S DECISION

Peoples Bank of St. Augustine and Florida National Bank are majority owned and controlled by Florida National Banks of Florida, Inc., Jacksonville, Fla., a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources

and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger
March 2, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## TRANS AMERICAN NATIONAL BANK,
Monterey Park, Calif., and Bank of San Marino, San Marino, Calif.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Bank of San Marino, San Marino, Calif., with | $ 12,997,000 | 1 | ——— |
| was purchased April 8, 1983, by Trans American National Bank, Monterey Park, Calif. (15506), which had | 123,850,000 | 3 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 4 |

## COMPTROLLER'S DECISION

On April 8, 1983, application was made to the OCC to grant prior written approval for Trans American National Bank, Monterey Park, Calif. (Assuming Bank), to purchase certain assets and assume certain liabilities of Bank of San Marino (San Marino). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of San Marino. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

San Marino was chartered by the State of California on June 26, 1980, under its present title. It operates one office, with deposits of approximately $13 million. At the close of business on April 8, 1983, San Marino was declared insolvent by the Banking Commissioner of the State of California and was placed in the hands of the Federal Deposit Insurance Corporation as receiver. The Comptroller of the Currency has now been requested to grant his written approval of the proposed agreement negotiated between the FDIC and the Assuming Bank by which the latter would purchase certain liabilities, including all deposit liabilities, of San Marino.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

* Asset figures are from the March 31, 1983, report of condition. Information as of date of consummation was not available at press time.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption to the community. The Assuming Bank has sufficient financial and managerial resources, and this acquisition will enable it to enhance the banking services offered in the San Marino community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume certain liabilities and purchase certain assets of San Marino, as set forth in the agreement, is approved. The Comptroller further finds that the failure of San Marino requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community, and the Comptroller thus waives publication of notice, dispenses with the solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

Assuming Bank is authorized to operate San Marino's former office at 2060 Huntington Drive, San Marino, Calif., as a branch office.
April 8, 1983

Due to the emergency nature of the situation, the Attorney General's report was not requested.

* * *

## SECURITY TRUST COMPANY OF NAPLES,
Naples, Fla., and Northern Trust Bank of Florida/Naples, National Association, Naples, Fla.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Security Trust Company of Naples, Naples, Fla., with | $2,218,409 | 1 | |
| and Northern Trust Bank of Florida/Naples, National Association, Naples, Fla. (17723), which had | 828,597 | 0 | |
| merged April 11, 1983, under charter and title of the latter. The merged bank at date of merger had | 3,047,006 | | 1 |

## COMPTROLLER'S DECISION

Northern Trust Bank of Florida/Naples, National Association (organizing), Naples, Fla. (Northern/Naples), is being organized by Northern Trust Corporation, Chicago, Ill. The merger of Security Trust Company of Naples, Naples, Fla. (Security), into Northern/Naples, is a part of a corporate reorganization in which the fiduciary business of Security will be performed as an adjunct to commercial banking services.

The merger combines a non-operating bank with an existing trust company. Northern Trust Corporation does not currently own any subsidiary banks operating in the Naples market. As such, this proposal presents no competitive issues under the Bank Merger Act (12 USC 1828(c)).

The financial and managerial resources of the bank and the trust company, and the future prospects of the resulting bank, are favorable. After the merger, the resulting bank will be in the position to offer a complete line of banking services in addition to fiduciary powers in the Naples community. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed merger.
February 22, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## THE FIRST NATIONAL BANK OF BIRMINGHAM, Birmingham, Ala., and Peoples Bank of Tuscaloosa, Tuscaloosa, Ala.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Birmingham, Birmingham, Ala. (3185), with | $2,251,020,000 | 36 | ——— |
| and Peoples Bank of Tuscaloosa, Tuscaloosa, Ala., which had | 29,914,000 | 2 | ——— |
| merged April 15, 1983, under charter of the former and the title "AmSouth Bank, National Association." The merged bank at date of merger had | 2,280,934,000 | ——— | 38 |

### COMPTROLLER'S DECISION

The Commercial National Bank of Anniston, Citizens National Bank of Limestone County, First National Bank of Decatur, Shoals National Bank of Florence, The American National Bank of Huntsville, The America National Bank & Trust Company of Mobile, The Alabama National Bank of Montgomery, The First National Bank of Autauga County, The City National Bank of Selma, Baldwin National Bank, The Bank of Arab, Parker Bank & Trust Company, Fort Payne Bank, Bank of Gadsden, The Bank of East Alabama, The Bank of Sulligent, Peoples Bank of Tuscaloosa, AmSouth Bank of Houston County, State Bank of the Gulf, Citizens Bank of Talladega and The First National Bank of Birmingham* are all majority-owned and controlled by AmSouth Bancorporation, Birmingham, Ala., a registered bank holding company. This proposed merger is a corporate reorganization of 20 AmSouth Bancorporation subsidiary banks into its lead bank and, consequently, it will have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.
January 13, 1983

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* The mergers of these banks were consummated on different dates.

* * *

## FIRST NATIONAL BANK OF EASTERN ARKANSAS, Forrest City, Ark., and Rice Growers Bank, Wheatley, Ark.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Rice Growers Bank, Wheatley, Ark., with | $15,813,000 | 1 | ——— |
| was purchased April 19, 1983, by First National Bank of Eastern Arkansas, Forrest City, Ark. (13637), which had | 66,122,000 | 5 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 6 |

### COMPTROLLER'S DECISION

On December 27, 1982, application was made to the OCC pursuant to the Bank Merger Act, 12 USC 1828(c), by First National Bank of Eastern Arkansas, Forrest City, Ark. (FNB), to purchase the assets and assume the liabilities of Rice Growers Bank, Wheatley, Ark. (RGB). The application is based on a written agreement executed by the banks on November 26, 1982.

* Asset figures are from the March 31, 1983 report of condition. Information as of date of consummation was not available at press time.

FNB, established in 1900, is the largest of four banks headquartered in St. Francis County, with deposits of $41 million as of December 31, 1981. FNB operates two branches in St. Francis County and is prohibited from branching de novo outside its home office county.

RGB, organized in 1909, is the third largest of four banks in St. Francis County, with deposits of $14.7 million as of December 31, 1981. RGB operates a single office.

FNB is located in Forrest City, which is approximately the midway point of St. Francis County. Its relevant geographic market is defined as St. Francis County. RGB is located in the extreme southwest corner of St. Francis County in Wheatley which is on the border of St. Francis and Monroe counties. RGB's relevant geographic market consists of a 10-mile radius surrounding Wheatley, and includes the southwest portion of St. Francis County and the northeast portion of Monroe County. FNB's nearest office to Wheatley is 12 miles northeast. Although there is some overlap in the relevant markets as presented geographically by the application, the proponents operate in essentially separate markets. Consequently, consummation of this proposal will merely replace one competitor in the Wheatley market with another, stronger competitor, and will allow FNB to penetrate a market where it does not presently compete.

The Bank Merger Act requires this Office to consider "the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." The financial and managerial resources of both FNB and RGB are satisfactory and the future prospects of the combined entity are good. The acquisition will enhance the convenience and needs of the community and will provide the Wheatley community with trust and ATM services and competition in the Wheatley market will be increased.

A review of the record of this application and other information available to this Office as a result of its bank regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed purchase of assets and assumption of liabilities.

March 17, 1983

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significant adverse effect on competition.

* * *

## THE FIRST NATIONAL BANK OF BIRMINGHAM, Birmingham, Ala., and The Bank of Sulligent, Sulligent, Ala.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Birmingham, Birmingham, Ala. (3185), with | $2,166,356,000 | 38 | ——— |
| and The Bank of Sulligent, Sulligent, Ala., which had | 28,987,000 | 2 | ——— |
| merged April 22, 1983, under charter of the former and title of "AmSouth Bank, National Association." The merged bank at date of merger had | 2,195,343,000 | ——— | 40 |

*The Comptroller's Decision and the Summary of Report by Attorney General can be found on p. 123*

* * *

## FIRST NATIONAL BANK OF OAK LAWN,
Oak Lawn, Ill., and Oak Lawn National Bank, Oak Lawn, Ill.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank of Oak Lawn, Oak Lawn, Ill. (15476), with | $130,265,000 | 1 | ——— |
| was purchased April 29, 1983, by Oak Lawn National Bank, Oak Lawn, Ill. (17747), which had | 8,300,000 | 0 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 1 |

### COMPTROLLER'S DECISION

On April 29, 1983, application was made to the OCC to grant prior approval for Oak Lawn National Bank, Oak Lawn, Ill. (Assuming Bank) to purchase certain assets and assume certain liabilities of First National Bank of Oak Lawn, Oak Lawn, Ill. The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of First National Bank of Oak Lawn. The application is hereby approved for the following reasons, and is subject to the following conditions, as set forth below. Therefore, Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

First National Bank of Oak Lawn was chartered as a national bank on January 27, 1965, and at the close of business on April 29, 1983, had total deposits of approximately $125 million. The bank was declared insolvent by the Comptroller of the Currency on April 29, 1983, and was placed in the hands of the FDIC as receiver. The Comptroller of the Currency has now been requested to grant his written approval of the proposed agreement negotiated between the FDIC and the Assuming Bank by which the latter would purchase certain assets and assume certain liabilities of First National Bank of Oak Lawn.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the Oak Lawn community. The Assuming Bank has sufficient financial and managerial resources, and this acquisition will enable it to enhance the banking services offered in the Oak Lawn community.

The Comptroller thus finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to purchase certain assets and assume certain liabilities of First National Bank of Oak Lawn, as set forth in the agreement, is approved. The Comptroller further finds that the failure of First National Bank of Oak Lawn requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and the Comptroller thus waives publication of notice, dispenses with the solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

By accepting this approval and by consummating the purchase and assumption transaction, the Assuming Bank agrees to be bound by the following conditions:

1. Maintenance over the next three (3) years of a minimum ratio of tangible primary capital to total assets of no less than four percent (4%).

2. Submission of a capital plan acceptable to this Office within ninety (90) days of the date of this approval. The capital plan must be designed

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

to permit the bank to achieve a ratio of primary capital to total assets that is consistent with the OCC's capital adequacy guidelines not later than three years after the date of this approval.

3. Achieve within three (3) years and thereafter maintain a ratio of primary capital to total assets that is consistent with the OCC's capital adequacy guidelines.

These conditions shall be deemed to be "conditions imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 USC 1818(b) (1).
April 29, 1983

Due to the emergency nature of the situation, the Attorney General's report was not requested.

* * *

## THE MARION NATIONAL BANK OF LEBANON, Lebanon, Ky., and Bank of Loretto, Loretto, Ky.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Bank of Loretto, Loretto, Ky., with | $ 9,659,905 | 1 | _____ |
| and The Marion National Bank of Lebanon, Lebanon, Ky. (2150), which had | 32,421,300 | 1 | _____ |
| consolidated April 29, 1983, under charter of the latter and with the title "Marion National Bank." The merged bank at date of merger had | 42,081,205 | _____ | 2 |

## COMPTROLLER'S DECISION

On November 4, 1982, application was made to the OCC for authorization to consolidate Bank of Loretto, Loretto, Ky. (Loretto Bank) and The Marion National Bank of Lebanon, Lebanon, Ky. (Marion National) under charter of the latter and with the title "Marion National Bank." The application is based on an agreement finalized between the two banks on September 22, 1982.

As of September 30, 1982, Marion National had approximately $31 million in total assets and $25 million in total deposits. The bank operates a main office in Lebanon, Kentucky and a single CBCT facility. Marion National was reorganized in 1981 under Marion Bancshares, a one-bank holding company, which controls 91 percent of the bank's stock. As of June 30, 1982, Loretto Bank had approximately $10 million in total assets and $9 million in total deposits. The bank operates a single office in Loretto, Ky.

The applicant banks operate in Marion County which is in central Kentucky, south of Louisville and Lexington. Marion National delineates Marion County in its entirety as its relevant geographic market; however, the size of the bank and demographics of the area indicate Marion National's primary service area is around Lebanon. Loretto Bank's relevant geographic market consists of the northwestern corner of Marion County and [illegible] portions of Nelson County, an area that roughly [illegible] the village of Loretto.

The proposed merger is primarily a plan of reorganization since the two banks operate under common ownership and are affiliates under 12 USC 221a. Recent major changes in the banking environment, competitive pressures from within the trade area as well as from larger financial institutions and other providers of financial services, and current economic conditions have made it difficult for smaller banks to maintain profitability, meet the competition, and continue to meet the convenience and needs of their communities. Through consolidation, the applicant banks hope to realize economies of scale and cost reductions in order to enhance the resultant bank's ability to meet competition. In short, the consolidation will permit two commonly owned smaller banks to pool resources and become one bank in order to meet the challenges of the marketplace.

The economy of operations and other benefits resulting from the consolidation should permit the resultant bank to better serve the convenience and needs of the community through competitive rates, increased services, and an increased lending limit.

The Bank Merger Act requires this Office to consider "the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources and future prospects of both banks are con

sidered satisfactory The future prospects of the resulting bank appear favorable as does its ability to further enhance its competitiveness in the market and serve the convenience and needs of its customers.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it will not lessen competition in the relevant market. Accordingly, the application is approved.
March 29, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## ALLIED BANK BEAUMONT,
Beaumont, Tex., and Citizens National Bank of Beaumont, Beaumont, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Allied Bank Beaumont, Beaumont, Tex., with | $42,477,314 | 1 | ——— |
| and Citizens National Bank of Beaumont, Beaumont, Tex. (15269), which had | 37,661,912 | 1 | ——— |
| merged April 30, 1983, under charter of the latter and with the title "Allied Bank Beaumont, National Association." The merged bank at date of merger had | 80,139,226 | ——— | 1 |

## COMPTROLLER'S DECISION

On October 22, 1982, application was made to the OCC to merge Citizens National Bank of Beaumont, Beaumont, Tex. (Citizens), the sole subsidiary of Citizens Financial Corporation, a registered bank holding company with Allied Bank Beaumont, Beaumont, Tex. (Allied), a subsidiary of Allied Bancshares, Inc., Houston, Tex., a registered bank holding company. The application is based on an agreement finalized between Citizens and Allied on September 15, 1982. As part of the plan, Allied Bancshares, Inc., will purchase Citizens Financial Corporation thus making the resulting bank a subsidiary of Allied Bancshares, Inc.

As of June 30, 1982, Citizens held total deposits of $32.8 million and operated through its main office in Beaumont, Texas. As of the same date, Allied held total deposits of $27.5 million and also operated only through its main office in Beaumont, Tex.

Citizens and Allied compete directly for loans and deposits within Beaumont, the relevant geographic market for this proposal. Although both banks operate in the same geographic market, and these offices are less than 1 mile apart, there is no evidence to suggest this proposal, if approved, would have an adverse effect on competition. Citizens ranks eighth among 10 commercial banks operating in Beaumont with a 3.5 percent share of the market's total deposits. Allied, the only subsidiary of Allied Bancshares, Inc in Beaumont, ranks ninth among commercial banks in Beaumont with only 3.0 percent of the market's total assets. The resulting bank would rank fourth.

Although consummation of this proposal would reduce the number of competitors by one, several alternative banking organizations would remain, including subsidiaries of some of the state's largest bank holding companies.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served."

A review of the financial and managerial resources of both banks and the future prospects of the existing and proposed institution has disclosed no reason why this application should not be approved. After the merger, the resulting bank will be in a position to draw on the financial and managerial resources of its parent. This will permit it to effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities would warrant denial of this application.

We have analyzed the proposal pursuant to the Bank Merger Act (12 USC 1828(c)) and find that it will not significantly lessen competition in the relevant market. Accordingly, this application is approved.
January 21, 1983

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

FIRST BANK OF SOUTH DAKOTA (NATIONAL ASSOCIATION),
Sioux Falls, S. Dak., and First Bank, (N.A.), Aberdeen, S. Dak., and The First National Bank of Clark, Clark, S. Dak., and First National Bank in Lemmon, Lemmon, S. Dak., and The First National Bank of Miller, Miller, S. Dak., and First Potter County Bank, Gettysburg, S. Dak.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First Bank, (N A ), Aberdeen, S. Dak. (3326), with | $162,573,000 | 3 | _____ |
| The First National Bank of Clark, Clark, S. Dak. (6409), with | 19,908,000 | 1 | _____ |
| First National Bank in Lemmon, Lemmon, S. Dak. (12857), with | 48,352,000 | 1 | _____ |
| The First National Bank of Miller, Miller, S. Dak. (6789), with | 44,238,000 | 1 | _____ |
| First Potter County Bank, Gettysburg, S. Dak., with | 34,949,000 | 1 | _____ |
| and First Bank of South Dakota (National Association), Sioux Falls, S. Dak. (12881), which had consolidated May 1, 1983, under the charter and title of the latter. The consolidated bank at date of consolidation had | 684,474,000 | 18 | _____ |
| | | _____ | 25 |

COMPTROLLER'S DECISION

First Potter County Bank, The First National Bank of Clark, First National Bank in Lemmon, The First National Bank of Miller, First Bank, (N A.), and First Bank of South Dakota (National Association) are majority-owned and controlled by First Bank System, Inc., Minneapolis, Minn., a registered bank holding company. This proposed transaction is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.
March 18, 1983

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse affect on competition.

* * *

* Asset figures are from the March 31, 1983, report of condition; information as of date of consummation was not available at press time.

## INDIAN HEAD NATIONAL BANK,
Nashua, N.H., and Indian Head National Bank of Laconia, Laconia, N.H.

| Names of banks and type of transaction | Total assets | Banking offices In operation | Banking offices To be operated |
|---|---|---|---|
| Indian Head National Bank of Laconia, Laconia, N.H. (4740), with | $ 24,022,360 | 3 | _____ |
| and Indian Head National Bank, Nashua, N.H. (15563), which had | 314,338,751 | 11 | _____ |
| merged May 1, 1983, under charter and title of the latter. The merged bank at date of merger had | 338,361,111 | _____ | 14 |

### COMPTROLLER'S DECISION

Indian Head National Bank and Indian Head National Bank of Laconia are majority-owned and controlled by Indian Head Banks Inc., Nashua, N.H., a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.
March 15, 1983

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## MID-AMERICAN NATIONAL BANK AND TRUST COMPANY,
Northwood, Ohio, and The Bank of Elmore Company, Elmore, Ohio

| Names of banks and type of transaction | Total assets | Banking offices In operation | Banking offices To be operated |
|---|---|---|---|
| The Bank of Elmore Company, Elmore, Ohio, with | $ 22,990,468 | 2 | _____ |
| and Mid-American National Bank and Trust Company, Northwood, Ohio (15416), which had | 185,638,343 | 17 | _____ |
| merged May 2, 1983, under charter and title of the latter. The merged bank at date of merger had | 209,197,458 | _____ | 19 |

### COMPTROLLER'S DECISION

On December 20, 1982, application was made to the OCC for authorization to merge the Bank of Elmore Company, Elmore, Ohio (Elmore Bank), into Mid-American National Bank and Trust Company, Northwood, Ohio (Mid-American Bank), under the charter and title of the latter. The application is based upon an agreement finalized between Elmore Bank and Mid-American Bank on November 10, 1982.

As of September 30, 1982, Mid-American Bank had approximately $165 million in total assets. The bank operates a main office in Northwood, Ohio and 16 branches located throughout the northwestern Ohio counties of Wood, Lucas and Hancock. Elmore Bank had approximately $21 million in total assets as of December 31,1981, operates a main office in the village of Elmore and a single branch located in Genoa, Ohio.

Both banks operate in service areas located in close proximity to the Toledo metropolitan area. Mid-American Bank's relevant geographic market consists of Wood County in its entirety, portions of the City of Toledo and its surrounding communities in Lucas County and the area immediately surrounding Arlington in Hancock County. Mid-American Bank operates all 17 of its banking offices within this three-county area. Competition within the defined market is intense. Elmore Bank's relevant geographic market consists of the southwestern corner of Ottawa County and the

[illegible] of Sandusky County, an area that roughly encircles the villages of Elmore and Genoa. Competition in this market area is much less aggressive than in the market area of Mid-American Bank due to the rural nature of the counties.

The proposed merger would combine two banks which operate in separate and distinct relevant geographic markets. The Mid-American Bank office which is nearest the market area of Elmore Bank is 14 miles north of Elmore and 11 miles north of Genoa. The area of market overlap is not considered to be significant. Mid-American Bank and Elmore Bank are not head-on competitors for the same customers, therefore, it can be concluded that the merger will not be significantly adverse to competition.

The two banking locations of the Elmore Bank will become the Elmore and Genoa Banking Centers of Mid-American Bank. Both will offer full traditional banking services and will allow Mid-American Bank to enter a market in which it does not presently compete. The merger will also provide benefits for Elmore Bank. First, the bank should benefit from the managerial expertise and employee training programs provided by Mid-American Bank. Second, the increased size of the resultant bank will mean expanded services for bank customers. Lastly, the merger will enhance the resultant bank's ability to compete through cost reductions, pooling of resources, and economies of scale.

The Bank Merger Act requires this Office to consider the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served. The financial and managerial resources and future prospects of both banks are considered satisfactory. The future prospects of the resulting bank appear favorable as does its ability to further enhance its competititveness in the market and serve the convenience and needs of its customers.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it will not lessen competition in the relevant market. Accordingly, the application is approved.
March 29, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## NCNB NATIONAL BANK OF FLORIDA,
Boca Raton, Fla., and NCNB National Bank of Florida, Boca Raton, Fla.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| NCNB National Bank of Florida, Boca Raton, Fla. (15421), with | $992,184,000 | 21 | |
| was purchased May 2, 1983, by NCNB National Bank of Florida, Boca Raton, Fla. (17775), which had | 240,000 | 0 | |
| After the purchase was effected, the receiving bank had | | | 21 |

## COMPTROLLER'S DECISION

NCNB Interim National Bank and NCNB National Bank of Florida are majority-owned and controlled by NCNB Corporation, Charlotte, N.C., a registered bank holding company. This proposed purchase is a corporate reorganization which would have no effect on competition.

[illegible]

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the bank's record of helping to meet the credit needs of its community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the purchase.
April 1, 1983

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

NCNB NATIONAL BANK OF FLORIDA,
Tampa, Fla., and NCNB National Bank of Florida, Tampa, Fla.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| NCNB National Bank of Florida, Tampa, Fla. (17534), with | $1,678,699,000 | 13 | ——— |
| was purchased May 2, 1983, by NCNB National Bank of Florida, Tampa, Fla. (17774), which had | 240,000 | 0 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 13 |

COMPTROLLER'S DECISION

NCNB New National Bank and Exchange Bank and Trust Company of Florida, National Association, Tampa, Fla. are majority-owned and controlled by NCNB Corporation, Charlotte, N.C., a registered bank holding company. This proposed purchase is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the bank's record of helping to meet the credit needs of its community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the purchase.
April 1, 1983

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

ELLIS NATIONAL BANK OF VOLUSIA COUNTY,
DeBary, Fla., and Ellis First National Bank of Flagler County, Bunnell, Fla.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Ellis First National Bank of Flagler County, Bunnell, Fla. (16728), with | $17,681,027 | 2 | ——— |
| and Ellis National Bank of Volusia County, DeBary, Fla. (15348), which had | 58,348,942 | 2 | ——— |
| merged May 13, 1983, under charter of the latter and with the title "Ellis Bank of Northeast Florida, National Association." The merged bank at date of merger had | 76,029,969 | ——— | 4 |

COMPTROLLER'S DECISION

Ellis National Bank of Volusia County and Ellis First National Bank of Flagler County are majority-owned and controlled by Ellis Banking Corporation, Bradenton, Fla., a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.
March 2, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## THE FIRST NATIONAL BANK OF BIRMINGHAM, Birmingham, Ala., and Bank of Gadsden, Gadsden, Ala.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Birmingham, Birmingham, Ala. (3185), with | $2,123,544,000 | 40 | _____ |
| and Bank of Gadsden, Gadsden, Ala., which had | 15,732,000 | 2 | _____ |
| merged May 13, 1983, under charter of the former and title of "AmSouth Bank, National Association." The merged bank at date of merger had | 2,139,276,000 | _____ | 42 |

*The Comptroller's Decision and the Summary of Report by Attorney General can be found on p. 123.*

* * *

## OLD COLONY BANK OF HAMPDEN COUNTY, N.A., Holyoke, Mass., and Old Colony Bank of Franklin County, National Association, Shelburne Falls, Mass.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Old Colony Bank of Franklin County, National Association, Shelburne Falls, Mass. (1144), with | $ 39,213,152 | 4 | _____ |
| and Old Colony Bank of Hampden County, N.A., Holyoke, Mass. (1939), which had | 218,062,759 | 10 | _____ |
| merged May 13, 1983, under charter of the latter and with the title "Bank of Boston-Western Massachusetts, National Association." The merged bank at date of merger had | 257,275,912 | _____ | 14 |

## COMPTROLLER'S DECISION

Old Colony Bank of Franklin County, National Association and Old Colony Bank of Hampden County, N.A. are majority owned and controlled by First National Boston Corporation, Boston, Mass., a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This is the prior written approval required by the Bank

Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.
April 12, 1983

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

THE FIRST HUNTINGTON NATIONAL BANK,
Huntington, W. Va., and Citizens National Bank of Point Pleasant, Point Pleasant, W. Va.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Citizens National Bank of Point Pleasant, Point Pleasant, W. Va. (13231), with | $ 78,095,000 | 1 | ——— |
| and The First Huntington National Bank, Huntington, W. Va. (3106), which had | 243,533,000 | 1 | ——— |
| merged May 21, 1983, under charter and title of the latter. The merged bank at date of merger had | | ——— | 2 |

COMPTROLLER'S DECISION

On February 7, 1983, application was made to the OCC for prior authorization to merge Citizens National Bank of Point Pleasant, Point Pleasant, W. Va. (Citizens) into The First Huntington National Bank, Huntington, W. Va. (FHNB). This application is based on an agreement finalized between Citizens and FHNB on December 20, 1982.

As of December 31, 1982 Citizens had total deposits of $66 million and operated its only office in Point Pleasant. On the same date FHNB, a unit bank, had total deposits of $170.5 million.

The relevant geographic market for this proposal is Mason County, W. Va., the area in which Citizens operates its only office and derives the bulk of its deposits. FHNB operates no offices in Mason County and derives no measurable business from the area. FHNB is located 45 miles away from Citizens. The proponents do not currently compete directly, therefore, consummation of this merger will have no significant effect on existing competition in the relevant market.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served."

The financial and managerial resources of both banks are considered satisfactory. The future prospects of the proponent banks, independently and in combination, are favorable, as are the expected effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it does not lessen competition in the relevant market. Accordingly, the application is approved.
April 19, 1983

The Attorney General's report was not received.

* * *

* Asset figures are from the March 31, 1983, report of condition. Information as of date of consummation was not available at press time.

FIRST NATIONAL BANK OF COMMERCE,
New Orleans, La. and The Bank of New Orleans and Trust Company, New Orleans, La.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Bank of New Orleans and Trust Company, New Orleans, La., with | $ 637,493,000 | 18 | ——— |
| and First National Bank of Commerce, New Orleans, La. (13689), which had | 1,436,452,000 | 15 | ——— |
| merged May 23, 1983, under charter and title of the latter. The merged bank at date of merger had | 2,073,945,000 | ——— | 33 |

## COMPTROLLER'S DECISION

On January 4, 1983, application was made to the OCC pursuant to the Bank Merger Act, 12 USC 1828(c), for permission to merge The Bank of New Orleans and Trust Company, New Orleans, La. (BNO) into First National Bank of Commerce, New Orleans, La. (FNBC). The application is based on a written agreement executed by the banks on November 9, 1982.

FNBC, established in 1933, is a wholly-owned subsidiary of First Commerce Corporation (Corporation), and is the second largest of 33 commercial banking institutions in the New Orleans market, with total deposits of $851 million as of December 31, 1981. It operates 14 branches in Orleans Parish and is prohibited from branching outside its home office parish.

BNO, established in 1943, is a wholly-owned subsidiary of New Orleans Bancshares, Inc. (Bancshares), and is the fourth largest commercial banking institution in the New Orleans market, with total deposits of $525 million as of December 31, 1981. It operates 18 offices in Orleans Parish and cannot branch outside the home office parish.

Bancshares will merge into a wholly-owned subsidiary of BNO and BNO will then merge into FNBC. The resulting bank will be a wholly-owned subsidiary of Corporation.

FNBC and BNO are located and compete directly with other depository institutions in the New Orleans metropolitan area. The relevant geographic market of both FNBC and BNO consists of the New Orleans Ranally Metropolitan Area (RMA) less the portion lying within St. Charles Parish and adding the community of Covington in St. Tammany Parish. The RMA includes all of Orleans Parish, the northern portions of Jefferson and St. Bernard Parish, the southern portion of St. Tammany Parish, and the northern portion of Plaquemines Parish.

There are 33 commercial banking organizations and 15 savings and loan associations in the New Orleans RMA. FNBC ranks second in the market, with 9.1 percent of total deposits, and BNO ranks fourth with 4.8 percent of total deposits. The combined institution will rank second in the market with 13.9 percent. The before-merger Herfindahl Index is 509 and consummation of the proposed merger will result in a modest increase of 88 points, for a total of 597. The relevant market will remain very unconcentrated and the merger cannot be expected to result in a substantial lessening of competition.

There has been a shift of population and economic activity from New Orleans to the surrounding parishes. This shift has caused the major New Orleans banks to seek customers from the suburban areas, despite restrictive branching laws which limit a bank's offices to its home parish. The New Orleans banks are losing ground and their deposit position has been deteriorating rapidly. The applicants have been soliciting customers from all the surrounding parishes. Despite the fact that FNBC and BNO offices are confined to Orleans Parish, they are convenient alternatives for customers throughout the RMA. Because of the movement to the surrounding parishes and the effort of the New Orleans banks to promote business with customers in the suburbs, the geographic market within which FNBC and BNO compete is the New Orleans RMA. Because alternative suppliers of financial services abound in this market, the combining of FNBC and BNO will have a negligible effect on the market structure. After the merger, a total of 32 commercial banking organizations will continue to serve the area's businesses. Savings and loans, unlike commercial banks, are permitted to establish branches throughout the metropolitan area, and in fact statewide, have grown more rapidly in recent years than their commercial bank competitors, and will continue to become stronger competitors when they begin to use their new authority to solicit business loans and deposits in the same way as commercial banks.

The merger of FNBC and BNO will add to the competitive performance of the New Orleans market by strengthening the capabilities of the combined bank to compete with the dominant firm in the New Orleans business market. The largest competitor in the market, Whitney National Bank with 31 percent of the market's

commercial loans, is able to compete aggressively by offering below prime rate loans because of its low overhead and low non-interest expenses. The resulting bank, with its increased resources and economies, will likely provide Whitney National Bank with some strenuous competition. Economic evidence indicates that where one or two firms dominate a market, as in the New Orleans market, the creation of a third strong firm enhances competition. *See e.g.* Department of Justice Merger Guidelines, page 20, line 33. Such improved capabilities will be particularly important during the 1980s, because of the changes in the retail banking environment that will result from deregulation of deposit interest rates, increased competition from savings and loans and other nonbank competitors, increased utilization of telecommunications and computer technology, and increased sophistication of customers in their demand for services.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." The financial and managerial resources of both FNBC and BNO are satisfactory and the future prospects of the combined entity are good. The merger will provide the combined bank with greater financial and managerial resources and will result in the bank being better able to serve the financial needs of the community. The combined entity will be in a better position to compete for larger customers as its capital base will enable it to increase its loan limit to individual customers. It will also have broader branch coverage and will be in a better position to develop innovative retail services to respond to the initiatives of competitors.

A review of the record of this application and other information available to this Office as a result of its bank regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.
April 12, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse affect on competition.

* * *

## CITY AND COUNTY BANK OF ANDERSON COUNTY,
Lake City, Tenn., and Third National Bank in Anderson County, Lake City, Tenn.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| City and County Bank of Anderson County, Lake City, Tenn., with | $142,875,000 | 6 | ——— |
| was purchased May 27, 1983, by Third National Bank in Anderson County, Lake City, Tenn. (17778), which had | 7,600,000 | 0 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 6 |

## COMPTROLLER'S DECISION

On May 27, 1983, application was made to the OCC for prior written approval for Third National Bank in Anderson County, Lake City, Tenn. (Assuming Bank), to purchase certain of the assets and assume certain of the liabilities of City and County Bank of Anderson County, Lake City, Tenn.

On May 27, 1983, City and County Bank of Anderson County was declared insolvent by the Commissioner of Banking of the State of Tennessee. It was placed in receivership, with the Federal Deposit Insurance Corporation acting as receiver. The present application is based upon an agreement, which is incorporated herein by reference, by which the Federal Deposit Insurance Corporation, as receiver, and Assuming Bank have agreed that Assuming Bank will purchase certain of the assets and assume certain of the liabilities of City and County Bank of Anderson County. For the reasons stated hereafter, Assuming Bank's application is approved, and the purchase and assumption transaction may be consummated immediately.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983 report of condition for the operating bank. Information as of date of consummation was not available at press time.

transaction which would have certain prescribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects from the consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed transaction will prevent disruption of banking services to the Lake City community. Assuming Bank has sufficient financial resources to absorb City and County Bank of Anderson County and to enhance the banking services available in the Lake City banking market.

The Comptroller finds that the proposed transaction will not result in a monopoly, or be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States, and that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. The Comptroller further finds that the failure of City and County Bank of Anderson County requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community. The Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

By accepting this approval and by consummating the purchase and assumption transaction, the Assuming Bank agrees to be bound by the following conditions:

1. Maintenance over the next 3 years of a minimum ratio of adjusted tangible primary capital, as defined, to adjusted total assets, as defined of five (5) percent.

For purposes of this provision, adjusted tangible primary capital is defined as primary capital (common stock, perpetual preferred stock, surplus, undivided profits, allowance for possible loan losses, and mandatory convertible issuances) LESS intangible assets, PLUS the lesser of (a) intangible assets, or (b) twenty-five percent (25%) of primary capital after deducting intangible assets. Total adjusted assets shall be defined as total assets PLUS, allowance for possible loan losses, LESS intangible assets, PLUS the lesser of (a) intangible assets, or (b) twenty-five percent (25%) of primary capital after deducting intangible assets.

2. Submission of a capital plan acceptable to this Office within ninety (90) days of the date of this approval designed to achieve within three (3) years a ratio of primary capital to total assets in accordance with the OCC's capital adequacy guidelines.

3. Achieving within three years and thereafter maintaining a ratio of primary capital to total assets in accordance with the OCC's capital adequacy guidelines.

These conditions shall be deemed to be "conditions imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 USC 1818(b)(1).

Assuming Bank is also, hereby, authorized to operate City and County Bank of Anderson County's offices located at the following locations as branch offices: 1188 Oak Ridge Turnpike, Oak Ridge; 149 North Main Street, Clinton, 790 Tri-County Boulevard, Oliver Springs; 100 5th Street, Jellico, 122 East Central Avenue, LaFollette; Woodson's Mall, LaFollette.
May 27, 1983

Due to the emergency nature of the situation, no Attorney General's report was requested.

* * *

## THE FIRST NATIONAL BANK OF BIRMINGHAM,
Birmingham, Ala., and The Bank of Arab, Arab, Ala.

| Names of banks and type of transaction | Total assets | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| The First National Bank of Birmingham, Birmingham, Ala. (3185), with | $2,189,404,000 | 42 | ——— |
| and The Bank of Arab, Arab, Ala., which had | 32,491,000 | 2 | ——— |
| merged May 27, 1983, under charter of the former and title of "AmSouth Bank, National Association." The merged bank at date of merger had | 2,221,895,000 | ——— | 44 |

*The Comptroller's Decision and the Summary of Report by Attorney General can be found on p. 123*

* * *

## UNION PLANTERS NATIONAL BANK OF MEMPHIS,
Memphis, Tenn., and United American Bank in Hamilton County, Chattanooga, Tenn.

| Names of banks and type of transaction | Total assets* | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| United American Bank in Hamilton County, Chattanooga, Tenn., with | $ 133,834,000 | 12 | ——— |
| was purchased May 27, 1983, by Union Planters National Bank of Memphis, Memphis, Tenn. (13349), which had | 1,484,227,000 | 33 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 45 |

### COMPTROLLER'S DECISION

On May 27, 1983, application was made to the OCC for prior written approval for Union Planters National Bank of Memphis, Memphis, Tenn. (Assuming Bank), to purchase certain of the assets and assume certain of the liabilities of United American Bank in Hamilton County, Chattanooga, Tenn.

On May 27, 1983, United American Bank in Hamilton County was declared insolvent by the Commissioner of Banking of the State of Tennessee. It was placed in receivership, with the Federal Deposit Insurance Corporation acting as receiver. The present application is based upon an agreement, which is incorporated herein by reference, by which the Federal Deposit Insurance Corporation, as receiver, and Assuming Bank have agreed that Assuming Bank will purchase certain of the assets and assume certain of the liabilities of United American Bank in Hamilton County. For the reasons stated hereafter, Assuming Bank's application is approved, and the purchase and assumption transaction may be consummated immediately.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects from the consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed transaction will prevent disruption of banking services to the Chattanooga community. Assuming Bank has sufficient financial resources to absorb United American Bank in Hamilton County and to enhance the banking services available in the Chattanooga banking market.

The Comptroller finds that the proposed transaction will not result in a monopoly, or be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking, nearly

* Asset figures are from the March 31, 1983, report of condition. Information as of date of consummation was not available at press time.

[illegible] of the United States and that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. The Comptroller further finds that the failure of United American Bank in Hamilton County requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community. The Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

By accepting this approval and by consummating the purchase and assumption transaction, the Assuming Bank agrees to be bound by the following conditions:

1. Maintenance over the next 3 years of a minimum ratio of adjusted tangible primary capital, as defined, to adjusted total assets, as defined, of five (5) percent.

   For purposes of this provision, adjusted tangible primary capital is defined as primary capital (common stock, perpetual preferred stock, surplus, undivided profits, allowance for possible loan losses, and mandatory convertible issuances) LESS intangible assets, PLUS the lesser of (a) intangible assets, or (b) twenty-five percent (25%) of primary capital after deducting intangible assets. Total adjusted assets shall be defined as total assets PLUS allowance for possible loan losses, LESS intangible assets, PLUS the lesser of (a) intangible assets, or (b) twenty-five percent (25%) of primary capital after deducting intangible assets.

2. Submission of a capital plan acceptable to this Office within ninety (90) days of the date of this approval designed to achieve within three (3) years a ratio of primary capital to total assets in accordance with the OCC's capital adequacy guidelines.

3. Achieving within 3 years and thereafter maintaining a ratio of primary capital to total assets in accordance with the OCC's capital adequacy guidelines.

These conditions shall be deemed to be "conditions imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 USC 1818(b) (1).

Assuming Bank is also, hereby, authorized to operate United American Bank in Hamilton County's offices as branch offices. In addition, Assuming Bank is authorized to operate off-premises customer bank communications terminals of United American Bank in Hamilton County at various locations throughout Hamilton County.

May 27, 1983

Due to the emergency nature of the situation, the Attorney General's report was not requested.

## UNION PLANTERS NATIONAL BANK OF MEMPHIS, Memphis, Tenn., and United Southern Bank of Nashville, Nashville, Tenn.

| Names of banks and type of transaction | Total assets* | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| United Southern Bank of Nashville, Nashville, Tenn., with | $ 144,171,000 | 7 | ——— |
| was purchased May 27, 1983, by Union Planters National Bank of Memphis, Memphis, Tenn. (13349), which had | 1,484,227,000 | 33 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 40 |

## COMPTROLLER'S DECISION

On May 27, 1983, application was made to the OCC for prior written approval for Union Planters National Bank of Memphis, Memphis, Tenn. (Assuming Bank) to purchase [illegible] the assets and assume certain [illegible] of the liabilities of United Southern Bank of Nashville, Nashville, Tenn.

On May 27, 1983, United Southern Bank of Nashville was declared insolvent by the Commissioner of Banking of the State of Tennessee. It was placed in receivership with the Federal Deposit Insurance Corporation acting as receiver. The present application is

based upon an agreement, which is incorporated herein by reference, by which the Federal Deposit Insurance Corporation, as receiver, and Assuming Bank have agreed that Assuming Bank will purchase certain of the assets and assume certain of the liabilities of United Southern Bank of Nashville. For the reasons stated hereafter, Assuming Bank's application is approved, and the purchase and assumption transaction may be consummated immediately.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects from the consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed transaction will prevent disruption of banking services to the Nashville community. Assuming Bank has sufficient financial resources to absorb United Southern Bank of Nashville and to enhance the banking services available in the Nashville banking market.

The Comptroller finds that the proposed transaction will not result in a monopoly, or be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States, and that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. The Comptroller further finds that the failure of United Southern Bank of Nashville requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community. The Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

By accepting this approval and by consummating the purchase and assumption transaction, the Assuming Bank agrees to be bound by the following conditions:

1. Maintenance over the next 3 years of a minimum ratio of adjusted tangible primary capital, as defined, to adjusted total assets, as defined, of five (5) percent.

   For purposes of this provision, adjusted tangible primary capital is defined as primary capital (common stock, perpetual preferred stock, surplus, undivided profits, allowance for possible loan losses, and mandatory convertible issuances) LESS: intangible assets, PLUS the lesser of (a) intangible assets, or (b) twenty-five percent (25%) of primary capital after deducting intangible assets. Total adjusted assets shall be defined as total assets PLUS: allowance for possible loan losses, LESS: intangible assets, PLUS: the lesser of (a) intangible assets, or (b) twenty-five percent (25%) of primary capital after deducting intangible assets.

2. Submission of a capital plan acceptable to this Office within ninety (90) days of the date of this approval designed to achieve within three (3) years a ratio of primary capital to total assets in accordance with the OCC's capital adequacy guidelines.

3. Achieving within 3 years and therefter maintaining a ratio of primary capital to total assets in accordance with the OCC's capital adequacy guidelines.

These conditions shall be deemed to be "conditions imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 USC 1818(b)(1).

Assuming Bank is hereby authorized to operate United Southern Bank of Nashville's offices as branch offices.
May 27, 1983

Due to the emergency nature of the situation, no Attorney General's report was requested.

* * *

## THE CITIZENS AND SOUTHERN NATIONAL BANK,
Savannah, Ga., and The Citizens and Southern Bank of Bartow County, Cartersville, Ga.

| Names of banks and type of transaction | Total assets* | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| The Citizens and Southern Bank of Bartow County, Cartersville, Ga., with | $ 26,374,000 | 1 | |
| and The Citizens and Southern National Bank, Savannah, Ga. (13068), which had | 5,515,419,000 | 145 | |
| merged May 31, 1983, under charter and title of the latter. The merged bank at date of merger had | | | 146 |

## COMPTROLLER'S DECISION

On January 10, 1983, application was made to the OCC to merge The Citizens and Southern Bank of Bartow County, Cartersville, Ga. (C&S-Bartow), into The Citizens and Southern National Bank (CSNB). This application is pursuant to a Plan of Merger finalized between C&S-Bartow, CSNB and Citizens and Southern Georgia Corporation (parent of CSNB) on November 16, 1982.

As of September 30, 1982, CSNB, a wholly-owned subsidiary of Citizens and Southern Georgia Corporation, had total deposits of $3.27 billion in 139 offices. On the same date, C&S-Bartow, an independent bank, had total deposits of $27 million in one office.

The proponents do not currently compete directly and, as such, consummation of this proposal will have no significant effect on existing competition in the relevant geographic market. The relevant market for this proposal is Bartow County, in which C&S-Bartow's only office is located. CSNB, which has offices in metropolitan Atlanta, Athens, Augusta, Dalton, Hartwell, Jackson, Macon, Moultrie, Savannah, Thomasville, Valdosta, and Warner Robbins, has no offices in Bartow County, and derives minimal business from the relevant market. CSNB's closest office to the relevant market is 23 miles southeast in Marietta, Cobb County. CSNB is also affiliated through common ownership with five state-chartered banks, none of which operates in Bartow County.

C&S-Bartow has been a "correspondent associate" of CSNB since 1967. As an associate, C&S-Bartow has received management and operations services from CSNB and used The Citizens and Southern Georgia Corporation logo and advertising. Therefore, consummation of this proposal will not result in any decrease in competition, but will merely replace one competitor in the market with another, significantly larger institution, while permitting CSNB to enter a market in which it currently does not compete directly.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are considered satisfactory. Consummation of the proposed merger will provide the resulting bank with an increased legal lending limit, and customers of C&S-Bartow with a wider range of services from which to choose. Consequently, the future prospects of the resulting bank are favorable, as are the expected effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it does not lessen competition in the relevant market. Accordingly, the application is approved.
April 26, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* [illegible] March 31, 1983, report of condition [illegible] was not available at press [illegible]

BANK ONE OF FAIRBORN, N.A.,
Fairborn, Ohio, and The Miami Deposit Bank, Yellow Springs, Ohio

| Names of banks and type of transaction | Total assets | Banking offices | Total deposits |
|---|---|---|---|
| The Miami Deposit Bank, Yellow Springs, Ohio, with | $ 44,105,000 | 4 | ——— |
| and Bank One of Fairborn, N.A., Fairborn, Ohio (9675), which had | 60,851,000 | 3 | ——— |
| merged June 1, 1983, under charter of the latter and with the title "Miami Bank, National Association." The merged bank at date of merger had | 103,956,000 | ——— | 7 |

## COMPTROLLER'S DECISION

On February 28, 1983, application was made to the OCC for authorization to merge The Miami Deposit Bank, Yellow Springs, Ohio (Miami Deposit), into Bank One of Fairborn, N.A., Fairborn, Ohio (Bank One Fairborn) under the charter of the latter and with the title "Miami Bank, National Association." The application is based on an agreement finalized between the two banks on February 25, 1983.

Banc One Corporation, Columbus, Ohio, parent of Bank One Fairborn, has an application pending with the Federal Reserve Board to acquire Winters National Corporation, Dayton, Ohio. As part of its pending application, Banc One Corporation has agreed with the Federal Reserve Board to divest its wholly-owned subsidiary, Bank One Fairborn. Pursuant to the agreement finalized on February 25, 1983, Bank One Fairborn and Miami Deposit, a wholly-owned subsidiary of First National Cincinnati Corporation, have agreed to merge.

As of December 31, 1982, Bank One Fairborn had approximately $62 million in total assets and $52 million in total deposits. The bank operates a main office and branch in Fairborn and a second branch in Beavercreek. Miami Deposit had approximately $41 million in total assets and $35 million in total deposits as of the same date and operates a main office and three branches in the Yellow Springs area.

Both banks operate in service areas which are considered part of the Dayton, Ohio banking market. Bank One Fairborn's relevant geographic market consists of the Dayton metropolitan area in its entirety. Miami Deposit's relevant geographic market consists of the central portions of Clark and Greene Counties, an area lying just east of and contiguous to the relevant geographic market of Bank One Fairborn.

A ZIP code analysis of deposit and loan accounts conducted by the applicant banks indicates that there is no overlap in their primary service areas, *i.e.*, that area from which the banks derive at least 75 percent of total deposits. The amount of overlap that occurs when the analysis is expanded to include those areas from which the banks derive 100 percent of deposits is not deemed to be significant. Bank One Fairborn and Miami Deposit are not head-on competitiors for the same customers.

The relevant geographic markets in which the applicant banks operate are actively competitive. In the Dayton banking market alone, 50 commercial banks and thrift institutions with 276 offices provide keen competition. Significant competition is also provided by nonbank providers of financial services.

The proposed merger would combine two banks with separate and distinct primary service areas. Given the service areas of the banks and the intensity of competition in the Dayton banking market, the merger will not be significantly adverse to competition.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources and future prospects of both banks are considered satisfactory. The future prospects of the resulting bank appear favorable as does its ability to further enhance its competitiveness in the market and serve the convenience and needs of its customers.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it will not lessen competition in the relevant market. Accordingly, the application is approved.
April 29, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

MARINE BANK NATIONAL ASSOCIATION
Milwaukee, Wis., and Cudahy Marine Bank, Cudahy, Wis., and South Milwaukee Marine Bank, South Milwaukee, Wis., and Oak Creek Marine National Bank, Oak Creek, Wis.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Cudahy Marine Bank, Cudahy, Wis., with | $ 75,020,030 | 1 | _____ |
| South Milwaukee Marine Bank, South Milwaukee, Wis., with | 43,976,564 | 1 | _____ |
| Oak Creek Marine National Bank, Oak Creek, Wis., (14957), with | 19,509,534 | 1 | _____ |
| and Marine Bank, National Association, Milwaukee, Wis. (5458), which had | 1,024,964,620 | 4 | _____ |
| merged June 1, 1983, under charter and title of the latter. The merged bank at date of merger had | 1,163,470,748 | _____ | 7 |

## COMPTROLLER'S DECISION

Cudahy Marine Bank, South Milwaukee Marine Bank, Oak Creek Marine National Bank, and Marine Bank, National Association are majority-owned and controlled by The Marine Corporation, Milwaukee, Wis., a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.
April 27, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

SECURITY NATIONAL BANK,
Lynn, Mass., and Lowell Bank and Trust Company, Lowell, Mass.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Lowell Bank and Trust Company, Lowell, Mass., with | $ 53,843,000 | 3 | _____ |
| and Security National Bank, Lynn, Mass. (7452), which had | 141,289,000 | 11 | _____ |
| merged June 1, 1983, under charter and title of the latter. The merged bank at date of merger had | | _____ | 14 |

## COMPTROLLER'S DECISION

On February 18, 1983, application was made to the OCC for prior authorization to merge Lowell Bank and Trust Company, Lowell, Mass. (LBT), into Security National Bank, Lynn, Mass. (Security). The application is based upon a written agreement finalized between LBT and Security on December 17, 1982.

As of June 30, 1982, LBT held total deposits of $41.9 million and operated three offices in Lowell in northern [illegible] Middlesex County. As of the same date, Security held total deposits of $116.2 million and operated 11 offices in eastern and southern Essex County.

The proponents do not compete directly and, therefore, consummation of this proposal would not have a significant effect on competition. Neither institution derives more than 1 percent of its loans or deposits from the area served by the other. The nearest offices of the two banks involved in this proposal are approximately 20 miles apart and numerous other commercial banks and thrift institutions operate in the markets

served by each. Consummation of this merger will merely replace one competitor in the market with another.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served."

The financial and managerial resources of both banks are considered satisfactory. Future prospects of the proponent banks, independently and in combination, are favorable as are the expected effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 USC 1828 (c), and find that it does not lessen competition in the relevant market. Accordingly, the application is approved.
April 21, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## OLD COLONY BANK OF NORTHERN ESSEX COUNTY, NATIONAL ASSOCIATION, Haverhill, Mass., and Old Colony Bank and Trust Company of Essex County, Marblehead, Mass.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Old Colony Bank and Trust Company of Essex County, Marblehead, Mass., with | $ 39,918,552 | 2 | ——— |
| and Old Colony Bank of Northern Essex County, National Association, Haverhill, Mass. (484), which had | 83,143,718 | 1 | ——— |
| merged June 3, 1983, under charter of the latter and with the title "Bank of Boston–Essex, National Association." The merged bank at date of merger had | 123,062,270 | ——— | 3 |

## COMPTROLLER'S DECISION

Old Colony Bank of Northern Essex County, National Association and Old Colony Bank and Trust Company of Essex County are majority-owned and controlled by First National Boston Corporation, Boston, Mass., a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828 (c), for the applicants to proceed with the merger.
April 28, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

COLONIAL BANK, NATIONAL ASSOCIATION,
Montgomery, Ala., and The First National Bank of Clanton, Clanton, Ala.

| Name of bank and kind of transaction | Total assets | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| The First National Bank of Clanton, Clanton, Ala. (11515), with | $33,383,917 | 2 | ——— |
| and Colonial Bank, National Association, Montgomery, Ala. (16247), which had | 33,656,270 | 5 | ——— |
| merged June 5, 1983, under charter and title of the latter. The merged bank at date of merger had | 65,121,184 | ——— | 7 |

## COMPTROLLER'S DECISION

On September 23, 1982, application was made to the OCC for prior authorization to merge The First National Bank of Clanton, Clanton, Ala. (First), into Colonial Bank, National Association, Montgomery, Ala. (Colonial). The application is based on an agreement finalized between First and Colonial on September 14, 1982.

First held total deposits of $29 million as of June 30, 1982, and operated two offices, both located in the city of Clanton, Chilton County. Colonial, a wholly-owned subsidiary of Colonial BancGroup, Inc. (BancGroup), held total deposits of $30 million as of June 30, 1982, and operated four offices, all located in Montgomery County. BancGroup owns two other banking subsidiaries and had deposits of $139 million as of December 31, 1981. It is the sixth largest of six statewide bank holding companies.

First's relevant geographic market consists of Chilton County, Ala., from which it derives 95 percent of its deposits. Colonial's relevant geographic market consists of Montgomery County, Ala. Clanton is located 50 miles north of Montgomery. The two market areas do not overlap and First and Colonial operate in two separate banking markets. No offices of any other subsidiary of BancGroup are closer than 50 miles from First. First is the third largest of four banks in Chilton County, with 22.3 percent of county wide deposits. State law prohibits either bank from branching *de novo* into the other bank's county. Therefore, the transaction would not eliminate any significant existing or potential competition, nor would it have a material effect on the concentration of banking offices in either market area.

The merger will have a beneficial effect on competition, enabling First to offer new and expanded services to its customers and to meet greater commercial and managerial lending needs.

The Bank Merger Act requires this Office to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. First is a well run bank with adequate capital and good earnings. However, its future prospects are limited due to its inability to effectively compete with the other banks in its market that have higher lending limits and can offer a wider range of services.

Colonial's financial and managerial resources and future prospects have been considerably improved. Colonial became a subsidiary of BancGroup on August 25, 1982, and BancGroup injected $3 million in capital at the time of acquisition. Management has been replaced and new policies have been implemented. Additional capital will be injected into Colonial as a result of the merger with First. Colonial's new identity with BancGroup and First's change in ownership and identity with BancGroup will provide the capital and new management that will enhance the future prospects of the resulting institution and will enable Colonial to continue to be an aggressive competitor in the Montgomery market and to become an aggressive competitor in the Clanton market. Consummation of this proposal will enable the resulting bank to offer a wider range of services and the convenience and needs of the communities will be better served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 USC 1828 (c), and find that it will not have a significant effect on competition in the relevant market. Accordingly, the application is approved.
May 6, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

## THE CITIZENS AND SOUTHERN NATIONAL BANK OF SOUTH CAROLINA, Charleston, S.C., and Bank of Fort Mill, Fort Mill, S.C.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Bank of Fort Mill, Fort Mill, S.C., with | $ 19,891,000 | 2 | |
| was purchased June 9, 1983, by The Citizens and Southern National Bank of South Carolina, Charleston, S.C. (14425), which had | 1,666,866,000 | 103 | |
| After the purchase was effected, the receiving bank had | | | 105 |

## COMPTROLLER'S DECISION

On February 4, 1983, application was made to the OCC for Citizens and Southern National Bank of South Carolina, Charleston, S.C. (CSNB) to purchase the assets and assume the liabilities of Bank of Fort Mill, Fort Mill, S.C. (BFM). This application is based upon a Stock Purchase Agreement finalized September 24, 1982 between CSNB and BFM.

As of June 30, 1982, BFM, an independent bank, had total deposits of $16,149,000 in two offices. On the same date, CSNB, a wholly-owned subsidiary of Citizens and Southern Corporation, had total deposits of $1,035,743,000 and operated 100 branches throughout South Carolina.

The relevant market for this proposal is an area of the northeast corner of York County, S.C. from which BFM derives 84.4 percent of its deposits (by dollar).[1] Currently, BFM is the second largest of three commercial banks operating in the market, with a 35.9 percent market share. The largest is a statewide banking organization with $1,001,259,000 in deposits, which holds a 36.1 percent market share.

The closest offices of CSNB are in Rock Hill, approximately 5 miles southwest of Fort Mill. The applicant indicates that analysis of deposit accounts revealed that CSNB acquires less than 5 percent of its Rock Hill branch deposits from the BFM market area. Similarly, less than 5 percent of BFM's deposits come from the Rock Hill market. Consequently, direct competition between BFM and CSNB in the relevant market is considered to be nominal.

This proposal will replace one competitor in the market with another, significantly larger institution. Although the market will remain concentrated, the market shares will remain basically unchanged, while providing another sophisticated, statewide competitor to the existing commercial bank market leader. In addition, the market's largest financial institution, a statewide savings and loan represented in this market by two offices, holds 2.3 times the dollar amount of the largest commercial bank deposit share. The institution resulting from this proposal will also be capable of providing increased competition to this market leader.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are considered satisfactory. Consummation of the proposed merger will provide the resulting bank with an increased legal lending limit, and customers in the relevant market with a wider range of services from which to choose. Consequently, the future prospects of the resulting bank are favorable, as are the expected effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 USC 1828 (c), and find that it does not lessen competition in the relevant market. Accordingly, the application is approved.
May 9, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* Asset figures are from the March 31, 1983, report of condition. Information as of date of consummation was not available at press time.

[1] Although it is located on the border between South Carolina and North Carolina, this ratio represents South Carolina deposits only.

## THE FIRST NATIONAL BANK OF BIRMINGHAM,
Birmingham, Ala., and Fort Payne Bank, Fort Payne, Ala.

| Names of banks and type of transaction | Total assets | Banking offices: In operation | To be operated |
|---|---|---|---|
| The First National Bank of Birmingham, Birmingham, Ala. (3185), with | $2,208,604,000 | 44 | ——— |
| and Fort Payne Bank, Fort Payne, Ala., which had | 39,320,000 | 3 | ——— |
| merged June 10, 1983, under charter of the former and title of "AmSouth Bank, National Association." The merged bank at date of merger had | 2,247,924,000 | ——— | 47 |

*The Comptroller's Decision and the Summary of Report by Attorney General can be found on p. 123*

* * *

## THE FIRST NATIONAL BANK OF AKRON,
Akron, Iowa, and Akron Savings Bank, Akron, Iowa

| Names of banks and type of transaction | Total assets* | Banking offices: In operation | To be operated |
|---|---|---|---|
| Akron Savings Bank, Akron, Iowa, with | $ 8,644,000 | 1 | ——— |
| was purchased June 17, 1983, by The First National Bank of Akron, Akron, Iowa (7322), which had | 20,405,000 | 1 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 1 |

### COMPTROLLER'S DECISION

An application was filed on January 13, 1983, with the OCC by The First National Bank of Akron, Akron, Iowa (First), to purchase the assets and assume the liabilities of Akron Savings Bank, Akron, Iowa (ASB). This application is based upon a written agreement executed by the banks on November 17, 1982.

As of December 31, 1982, First held total deposits of $19 million and ASB held total deposits of $8 million. First is a unit bank subsidiary of Security National Corporation (Security), the eighth largest banking organization in Iowa with 1.6 percent of the state's commercial bank deposits. ASB is an independent unit bank.

The relevant geographic market for this proposal is the western half of Plymouth County, the southwestern corner of Sioux County, and the eastern portion of Union County, South Dakota, the area in which both banks operate and derive the bulk of their deposits. Within the relevant market there are nine commercial banks holding total deposits of $215 million. First, Security's only subsidiary bank in the market, is the seventh largest bank in the market with 7.6 percent of the market's commercial bank deposits. ASB is the fourth bank with 11.0 percent of market deposits. The resulting bank would be the fourth largest commercial bank with an 11.6 percent market share.

Consummation of this proposal would reduce the number of competitors in the market by one and combine the only two banks in the community of Akron. However, within the relevant market, ample alternative banking organizations would still remain. Furthermore, there is evidence that these banking alternatives do, in fact, compete with the proponents in Akron. Recognizing these facts, this Office finds that the proposed merger would not have an adverse effect on competition and, in all likelihood, should have a positive effect within the market.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." We find the financial and managerial resources of First and ASB to be satisfactory. The future prospects of the proponents, individually and combined, are considered favorable although the larger resulting bank is expected to provide more viable competition in its market.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit

needs of their communities, including low and moderate income neighborhoods, are less than satisfactory

We have analyzed this proposal pursuant to the Bank Merger Act, 12 USC 1828 (c), and find that it will not have a significant effect on competition in the revelant market.
May 10, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## THE FIRST NATIONAL BANK OF BIRMINGHAM,
Birmingham, Ala., and AmSouth Bank of Houston County, Dothan, Ala.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Birmingham, Birmingham, Ala. (3185), with | $2,135,046,000 | 47 | ——— |
| and AmSouth Bank of Houston County, Dothan, Ala., which had | 35,270,000 | 4 | ——— |
| merged June 24, 1983, under charter of the former and title of "AmSouth Bank, National Association." The merged bank at date of merger had | | ——— | 51 |

*The Comptroller's Decision and the Summary of Report by Attorney General can be found on p. 123.*

* Asset figures are from the March 31, 1983 report of condition. Information as of date of consummation was not available at press time

* * *

## AMERICAN NATIONAL BANK,
Bakersfield, Calif., and Three Branches of The Bank of California, N.A., San Francisco, Calif.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Three Branches of The Bank of California, N.A., San Francisco, Calif. (9655), with | $3,898,830,000 | 3 | ——— |
| were purchased June 27, 1983, by American National Bank, Bakersfield, Calif. (15437), which had | 494,194,000 | 28 | ——— |
| After the purchase was effected, the receiving bank had | | ——— | 31 |

## COMPTROLLER'S DECISION

On March 11, 1983, an application was filed with the OCC by American National Bank, Bakersfield, Calif. (American), for approval to purchase certain assets and assume certain liabilities of The Bank of California (BankCal), by the acquisition of three of BankCal's branch offices located in San Bernardino. This application is based upon a written agreement executed by the banks on February 8, 1983

As of December 31, 1982, American held total deposits of $431 million and had 28 offices throughout much of the San Joaquin Valley and the Antelope Valley. American is the flagship of Central Pacific Corporation which has one other subsidiary bank, located in Sacramento, Calif. As of the same date, BankCal held total deposits of $2.7 billion and had 35 offices in California, three offices in Washington and one office in Oregon. BankCal is the only national bank that is authorized to operate branches in three states. At December 31, 1982, the three San Bernardino branches of BankCal held total deposits of $110 million

Consummation of this proposal will have no significant effect on competition. The cities of San Bernardino

* Asset figures are of whole bank as of the March 31, 1983 report of condition. Information as of date of consummation was not available at press time

Rialto and Ontario have been designated as the relevant geographic market. Within the market there are presently eight commercial banks operating 28 offices and holding total deposits of $620 million. BankCal is the third largest bank in the market with a 17.7 percent market share. American does not operate any offices in this market and its closest office is approximately 60 miles away. Consequently, consummation of this proposal will replace one competitor in the market with another.

The Bank Merger Act requires this Office to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. We find the financial and managerial resources of American and BankCal to be satisfactory as are the future prospects of the combined entity.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it will not have a significant effect on competition in the relevant market. Accordingly, the application is approved.
May 6, 1983

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

## FIRST NATIONAL BANK,
New Albany, Miss., and One Branch of First Financial Savings and Loan Association of New Albany, New Albany, Miss.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Tupelo Branch of First Financial Savings and Loan Association of New Albany, New Albany, Miss., with | N.A. | 1 | |
| was purchased June 30, 1983, by First National Bank, New Albany, Miss. (15519), which had | $91,966,000 | 9 | |
| After the purchase was effected, the receiving bank had | | | 10 |

*The official decision for this transaction was made by the Federal Deposit Insurance Corporation. Due to the emergency nature of the situation, the Attorney General's report was not requested.*

* The asset figure for First National Bank is from the March 31, 1983, report of condition. Information as of date of consummation was not available at press time.

* * *

## VALLEY NATIONAL BANK, GLENDALE,
Glendale, Calif., and One Branch of Mitsui Manufacturers Bank, Los Angeles, Calif

| Names of banks and type of transaction | Total assets* | Branches after operation | Total operations |
|---|---|---|---|
| One Branch of Mitsui Manufacturers Bank, Los Angeles, Calif., with | $1,643,767,000 | 1 | |
| was purchased June 30, 1983, by Valley National Bank, Glendale, Glendale, Calif. (14823), which had | 147,032,000 | 6 | |
| After the purchase was effected, the receiving bank had | | | 7 |

### COMPTROLLER'S DECISION

An application was filed on March 10, 1983, with the OCC, by Valley National Bank, Glendale, Glendale, Calif. (Valley) to purchase certain of the assets and assume certain of the liabilities of the Van Nuys branch office of Mitsui Manufacturers Bank, Los Angeles, Calif. (Mitsui). This application is based upon a written agreement executed by the two banks on March 4, 1983.

As of December 31, 1982, Valley held total deposits of $124 million and operated six offices in the greater Los Angeles area. As of the same date, Mitsui held total deposits of $1.3 billion and operated 11 offices, nine of which were in the greater Los Angeles area with one each in San Diego and San Francisco. The Van Nuys branch office held deposits of $2.4 million at December 31, 1982.

The relevant geographic market for this proposal is the Van Nuys community of Los Angeles. At June 30, 1982, six commercial banks operated nine banking offices in Van Nuys and held total deposits of $306 million. The competitors included four statewide, multibillion dollar deposit banking organizations. The $2.4 million in deposits that Valley proposes to assume by acquiring the Van Nuys office from Mitsui represents less than 1 percent of the market's deposits. Valley does not currently operate any offices in Van Nuys and its closest office to the Van Nuys branch office is more than 6 miles away. Therefore, consummation of this proposal will merely replace one competitor in the market with another.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both Valley and Mitsui are considered satisfactory and their future prospects are considered favorable. However, because Mitsui has decided to close its Van Nuys branch office in 1983, consummation of this proposal will result in the continuation of alternative banking services in the Van Nuys community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c), and find that it will not have a significant effect on competition in the relevant market. Accordingly, the application is approved.
May 31, 1983

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* Asset figures are of whole bank as of the March 31, 1983, report of condition. Information as of date of consummation was not available at press time.

* * *

## II Mergers consummated involving a single operating bank.

Because of space limitations the *Quarterly Journal* will no longer carry the Comptroller's Decision or the Summary of Report by Attorney General for transactions involving a single operating bank if the standard text below is used

### COMPTROLLER'S DECISION

* * * Bank is being organized by * * *, a bank holding company. The merger of * * * Bank into * * * (organizing) Bank is a part of a process whereby * * * (holding company), will acquire 100 percent (less directors' qualifying shares) of * * * Bank. The merger is a vehicle for a bank holding company acquisition and combines a non-operating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c)

The financial and managerial resources of both proponents and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will be in the position to draw on the financial and managerial resources of its new corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed merger.

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which the * * * Bank would become a subsidiary of * * *, a bank holding company. The instant transaction would merely combine an existing bank with a non-operating institution, as such, and without regard to the acquisition of the surviving bank by * * * (holding company), it would have no effect on competition.

### THE RUSSELL NATIONAL BANK,
Lewistown, Pa., and Interim National Bank of Lewistown, Lewistown, Pa.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Russell National Bank, Lewistown, Pa. (10506), with | $118,511,000 | 6 | ——— |
| and Interim National Bank of Lewistown, Lewistown, Pa. (10506), which had | 120,000 | 0 | ——— |
| merged December 31, 1982, under charter of the latter and title of the former. The merged bank at date of merger had | | ——— | 6 |
| The resulting bank is a subsidiary of Heritage Financial Services Corporation, Lewistown, Pa. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983 report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## SOUTH SIDE NATIONAL BANK IN ST. LOUIS,
St. Louis, Mo., and Grand & Gravois National Bank, St. Louis, Mo.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| South Side National Bank in St. Louis, St. Louis, Mo. (14128), with | $158,076,000 | 2 | ——— |
| and Grand & Gravois National Bank, St. Louis, Mo. (14128), which had | 240,000 | 0 | ——— |
| merged January 3, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | | ——— | 2 |
| The resulting bank is a subsidiary of Southside Bancshares Corp., St. Louis, Mo. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## THE FIRST NATIONAL BANK OF PEORIA,
Peoria, Ill., and Republic National Bank of Peoria, Peoria, Ill.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank of Peoria, Peoria, Ill. (176), with | $182,290,091 | 2 | ——— |
| and Republic National Bank of Peoria, Peoria, Ill. (176), which had | 240,000 | 0 | ——— |
| merged April 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 178,530,091 | ——— | 2 |
| The resulting bank is a subsidiary of First Peoria Corp., Peoria, Ill. | | | |

* * *

## THE NATIONAL BANK OF SUSSEX COUNTY,
Branchville, N.J., and NBSC National Bank, Branchville, N.J.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The National Bank of Sussex County, Branchville, N.J. (13855), with | $85,471,000 | 7 | ——— |
| and NBSC National Bank, Branchville, N.J. (13855), which had | 60,000 | 0 | ——— |
| consolidated April 1, 1983, under charter and title of the former. The consolidated bank at date of consolidation had | | ——— | 7 |
| The resulting bank is a subsidiary of High Point Financial Corp., Branchville, N.J. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## SAN DIEGO NATIONAL BANK,
San Diego, Calif., and Interim San Diego National Bank, San Diego, Calif.

| Names of banks and type of transaction | Total assets* | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| San Diego National Bank, San Diego, Calif. (17114), with | $50,244,000 | 1 | _____ |
| and Interim San Diego National Bank, San Diego, Calif. (17114), which had | 240,000 | 0 | _____ |
| merged April 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | | _____ | 1 |
| The resulting bank is a subsidiary of SDNB Financial Corp., San Diego, Calif. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## TEXAS NATIONAL BANK OF MIDLAND,
Midland, Tex., and RepublicBank Midland, National Association, Midland, Tex.

| Names of banks and type of transaction | Total assets | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| Texas National Bank of Midland, Midland, Tex. (16770), with | $47,803,384 | 1 | _____ |
| and RepublicBank Midland, National Association, Midland, Tex. (16770), which had | 240,000 | 0 | _____ |
| merged April 1, 1983, under charter and title of the latter. The merged bank at date of merger had | 42,715,466 | _____ | 1 |
| The resulting bank is a subsidiary of RepublicBank Corporation, Dallas, Tex. | | | |

* * *

## TOWER NATIONAL BANK OF LIMA,
Lima, Ohio, and Bank One of Lima, National Association, Lima, Ohio

| Names of banks and type of transaction | Total assets | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| Tower National Bank of Lima, Lima, Ohio (15340), with | $81,140,879 | 5 | _____ |
| and Bank One of Lima, National Association, Lima, Ohio (15340), which had | 120,000 | 0 | _____ |
| merged April 2, 1983, under charter and title of the latter. The merged bank at date of merger had | 81,260,879 | _____ | 5 |
| The resulting bank is a subsidiary of Banc One Corporation, Columbus, Ohio. | | | |

* * *

## THE FIRST NATIONAL BANK OF CHATSWORTH,
Chatsworth, Ga., and Chatsworth Interim National Bank, Chatsworth, Ga.

| Names of banks and type of transaction | Total assets* | Banking offices: In operation | Banking offices: To be operated |
|---|---|---|---|
| The First National Bank of Chatsworth, Chatsworth, Ga. (16487), with | $19,651,745 | 2 | _____ |
| and Chatsworth Interim National Bank, Chatsworth, Ga. (16487), which had | 120,000 | 0 | _____ |
| merged April 5, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 19,651,745 | _____ | 2 |
| The resulting bank is a subsidiary of First Chatsworth Bankshares, Inc., Chatsworth, Ga. | | | |

* * *

## FIRST NATIONAL BANK IN FAIRMONT,
Fairmont, W. Va., and First National Interim Bank in Fairmont, Fairmont, W. Va.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank in Fairmont, Fairmont, W. Va. (13811), with | $125,625,000 | 2 | ——— |
| and First National Interim Bank in Fairmont, Fairmont, W. Va. (13811), which had | 120,000 | 0 | ——— |
| merged April 6, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | | ——— | 2 |
| The resulting bank is a subsidiary of Fidelity Bancorp, Inc., Fairmont, W. Va. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## THE FARMERS NATIONAL BANK OF SHELBYVILLE,
Shelbyville, Ind., and Farmco National Bank, Shelbyville, Ind.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Farmers National Bank of Shelbyville, Shelbyville, Ind. (4800), with | $99,143,000 | 5 | ——— |
| and Farmco National Bank, Shelbyville, Ind. (4800), which had | 120,000 | 0 | ——— |
| merged April 15, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 99,143,000 | ——— | 5 |
| The resulting bank is a subsidiary of Farmers National Corporation, Shelbyville, Ind. | | | |

* * *

## LAKESIDE NATIONAL BANK OF LAKE CHARLES,
Lake Charles, La., and New Lakeside National Bank, Lake Charles, La.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| New Lakeside National Bank, Lake Charles, La. (14849), with | $ 240,000 | 0 | ——— |
| and Lakeside National Bank of Lake Charles, Lake Charles, La. (14849), which had | 136,308,000 | 6 | ——— |
| consolidated April 15, 1983, under charter and title of the latter. The consolidated bank at date of consolidation had | 136,308,000 | ——— | 6 |
| The resulting bank is a subsidiary of Lakeside Bancshares, Inc., Lake Charles, La. | | | |

* * *

## FIRST NATIONAL BANK OF SOUTHWESTERN OHIO,
Monroe, Ohio, and First S/W/O, National Association, Monroe, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank of Southwestern Ohio, Monroe, Ohio (56), with | $455,250,075 | 21 | ——— |
| and First S/W/O, National Association, Monroe, Ohio (56), which had | 240,000 | 0 | ——— |
| merged April 27, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 455,250,075 | ——— | 21 |
| The resulting bank is a subsidiary of First Financial Bancorp., Monroe, Ohio. | | | |

* * *

## WILBER NATIONAL BANK,
Oneonta, N.Y., and W.B. National Bank, Oneonta, N.Y.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Wilber National Bank, Oneonta, N.Y. (2151), with | $125,856,000 | 6 | ——— |
| and W.B. National Bank, Oneonta, N.Y. (2151), which had | 120,000 | 0 | ——— |
| consolidated April 28, 1983, under charter and title of the former. The consolidated bank at date of consolidation had | | ——— | 6 |
| The resulting bank is a subsidiary of The Wilber Corporation, Oneonta, N.Y. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## NATIONAL BANK OF THE COMMONWEALTH,
Indiana, Pa., and Interim National Bank of the Commonwealth, Indiana, Pa.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| National Bank of the Commonwealth, Indiana, Pa. (14098), with | $266,580,569 | 20 | ——— |
| and Interim National Bank of the Commonwealth, Indiana, Pa. (14098), which had | 310,000 | 0 | ——— |
| merged April 29, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 266,580,569 | ——— | 20 |
| The resulting bank is a subsidiary of First Commonwealth Financial Corporation, Indiana, Pa. | | | |

* * *

## PACIFIC NATIONAL BANK,
Newport Beach, Calif., and New Pacific National Bank, Newport Beach, Calif.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Pacific National Bank, Newport Beach, Calif. (17166), with | $26,204,000 | 1 | ——— |
| and New Pacific National Bank, Newport Beach, Calif. (17166), which had | 240,000 | 0 | ——— |
| merged April 29, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | | ——— | 1 |
| The resulting bank is a subsidiary of PNB Financial Group, Newport Beach, Calif. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## FIRST NATIONAL BANK OF MISSION,
Mission, Tex., and First Bank of Commerce National Association, Mission, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank of Mission, Mission, Tex. (14383), with | $72,235,059 | 1 | _____ |
| and First Bank of Commerce National Association, Mission, Tex. (14383), which had | 120,000 | 0 | _____ |
| merged April 30, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 72,235,059 | _____ | 1 |
| The resulting bank is a subsidiary of National Bancshares Corporation of Texas, San Antonio, Tex. | | | |

* * *

## THE FIRST NATIONAL BANK OF BELLEVUE,
Bellevue, Ohio, and Bellevue National Bank, Bellevue, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Bellevue, Bellevue, Ohio (2302), with | $43,510,662 | 3 | _____ |
| and Bellevue National Bank, Bellevue, Ohio (2302), which had | 120,000 | 0 | _____ |
| merged May 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 43,510,662 | _____ | 3 |
| The resulting bank is a subsidiary of First Bancshares, Inc., Bellevue, Ohio. | | | |

* * *

## THE OUACHITA NATIONAL BANK IN MONROE,
Monroe, La., and ONB National Bank, Monroe, La.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Ouachita National Bank in Monroe, Monroe, La. (13655), with | $504,635,902 | 8 | _____ |
| and ONB National Bank, Monroe, La. (13655), which had | 240,000 | 0 | _____ |
| merged May 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 504,875,902 | _____ | 8 |
| The resulting bank is a subsidiary of Ouachita National Bancshares, Inc., Monroe, La. | | | |

* * *

## PROMENADE NATIONAL BANK,
Richardson, Tex., and PNB National Bank, Richardson, Tex.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Promenade National Bank, Richardson, Tex. (15856), with | $78,305,000 | 1 | ——— |
| and PNB National Bank, Richardson, Tex. (15856), which had | 240,000 | 0 | ——— |
| merged May 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | | ——— | 1 |
| The resulting bank is a subsidiary of Promenade Bancshares, Inc., Richardson, Tex. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## THE UNION CENTER NATIONAL BANK,
Union, N.J., and The Union Center Interim National Bank, Union, N.J.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Union Center National Bank, Union, N.J. (12425), with | $92,849,000 | 5 | ——— |
| and The Union Center Interim National Bank, Union, N.J. (12425), which had | 240,000 | 0 | ——— |
| merged May 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | | ——— | 5 |
| The resulting bank is a subsidiary of Center Bancorp, Union, N.J. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## THE FIRST NATIONAL BANK OF HERMINIE,
Herminie, Pa., and Interim First National Bank of Herminie, Herminie, Pa.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank of Herminie, Herminie, Pa. (10188), with | $73,731,117 | 1 | ——— |
| and Interim First National Bank of Herminie, Herminie, Pa. (10188), which had | 120,000 | 0 | ——— |
| merged May 2, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | $73,730,599 | ——— | 1 |
| The resulting bank is a subsidiary of FNH Corporation, Herminie, Pa. | | | |

* * *

## THE NATIONAL BANK OF COMMERCE OF CHARLESTON,
Charleston, W. Va., and Commerce Bank, National Association, Charleston, W. Va

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The National Bank of Commerce of Charleston, Charleston, W. Va (13509), with | $223,950,811 | 1 | _____ |
| and Commerce Bank, National Association, Charleston, W. Va. (13509), which had | 240,000 | 0 | _____ |
| merged May 2, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 223,950,811 | _____ | 1 |
| The resulting bank is a subsidiary of National Banc of Commerce Company, Charleston, W. Va. | | | |

* * *

## NORTHFIELD NATIONAL BANK,
Houston, Tex., and New Northfield National Bank, Houston, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Northfield National Bank, Houston, Tex. (16975), with | $19,919,105 | 1 | _____ |
| and New Northfield National Bank, Houston, Tex. (16975), which had | 240,000 | 0 | _____ |
| merged May 2, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 20,159,105 | _____ | 1 |
| The resulting bank is a subsidiary of Cullen/Frost Bankers, Inc., San Antonio, Tex. | | | |

* * *

## TERRE HAUTE FIRST NATIONAL BANK,
Terre Haute, Ind., and Terre Haute Second National Bank, Terre Haute, Ind.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Terre Haute First National Bank, Terre Haute, Ind. (47), with | $444,065,309 | 9 | _____ |
| and Terre Haute Second National Bank, Terre Haute, Ind. (47), which had | 240,000 | 0 | _____ |
| merged May 2, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 444,065,309 | _____ | 9 |
| The resulting bank is a subsidiary of Terre Haute First Corporation, Terre Haute, Ind. | | | |

* * *

## VALLEY NATIONAL BANK,
Passaic, N.J., and Valley Bank, National Association, Passaic, N.J.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Valley National Bank, Passaic, N.J. (15790), with | $734,137,000 | 15 | _____ |
| and Valley Bank, National Association, Passaic, N.J. (15790), which had | 240,000 | 0 | _____ |
| merged May 2, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 734,137,000 | _____ | 15 |
| The resulting bank is a subsidiary of Valley National Bancorp., Clifton, N.J. | | | |

* * *

## FIRST BANK NATIONAL ASSOCIATION,
Cleveland, Ohio, and FBNA National Bank, Cleveland, Ohio

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| First Bank National Association, Cleveland, Ohio (16545), with | $58,268,725 | 4 | _____ |
| and FBNA National Bank, Cleveland, Ohio (16545), which had | 247,200 | 0 | _____ |
| merged May 6, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 58,275,925 | _____ | 4 |
| The resulting bank is a subsidiary of First Intercity Banc Corporation, Wilmington, Del. | | | |

* * *

## THE FIRST NATIONAL BANK OF THOMSON,
Thomson, Ga., and Interim First National Bank of Thomson, Thomson, Ga.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank of Thomson, Thomson, Ga. (9302), with | $50,244,519 | 3 | _____ |
| and Interim First National Bank of Thomson, Thomson, Ga. (9302), which had | 120,000 | 0 | _____ |
| merged May 10, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 50,244,519 | _____ | 3 |
| The resulting bank is a subsidiary of First Thomson Bancorp, Inc., Thomson, Ga. | | | |

* * *

## THE FIRST NATIONAL BANK OF HUNTINGBURG,
Huntingburg, Ind., and Huntingburg National Service Bank, Huntingburg, Ind.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank of Huntingburg, Huntingburg, Ind. (8929), with | $57,494,814 | 3 | _____ |
| and Huntingburg National Service Bank, Huntingburg, Ind. (8929), which had | 60,000 | 0 | _____ |
| merged May 31, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 57,414,814 | _____ | 3 |
| The resulting bank is a subsidiary of Fourth First Bancorp., Huntingburg, Ind. | | | |

* * *

## THE FIRST NATIONAL BANK OF DEFUNIAK SPRINGS,
DeFuniak Springs, Fla., and Sun First National Bank of DeFuniak Springs, DeFuniak Springs, Fla.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank of DeFuniak Springs, DeFuniak Springs, Fla. (7404), with | $29,624,000 | 2 | _____ |
| and Sun First National Bank of DeFuniak Springs, DeFuniak Springs, Fla. (7404), which had | 120,000 | 0 | _____ |
| merged June 1, 1983, under charter and title of the latter. The merged bank at date of merger had | | _____ | 2 |
| The resulting bank is a subsidiary of Sun Banks of Florida, Inc., Orlando, Fla. | | | |

* [illegible] organizing charter for the organizing bank and from the March 31, 1983, report of condition for the operating [illegible] available at press time.

* * *

## THE FIRST NATIONAL BANK OF LOGANSPORT,
Logansport, Ind., and Logansport National Bank, Logansport, Ind.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Logansport, Logansport, Ind. (13580), with | $155,149,014 | 4 | ——— |
| and Logansport National Bank, Logansport, Ind. (13580), which had | 123,600 | 0 | ——— |
| merged June 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 155,091,391 | ——— | 4 |
| The resulting bank is a subsidiary of First National Bankshares, Inc., Logansport, Ind. | | | |

* * *

## UPTOWN NATIONAL BANK OF CHICAGO,
Chicago, Ill., and UNB National Bank of Chicago, Chicago, Ill.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Uptown National Bank of Chicago, Chicago, Ill. (14430), with | $131,134,894 | 2 | ——— |
| and UNB National Bank of Chicago, Chicago, Ill. (14430), which had | 240,000 | 0 | ——— |
| merged June 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 131,134,894 | ——— | 2 |
| The resulting bank is a subsidiary of Upbancorp, Inc., Chicago, Ill. | | | |

* * *

## THE WAYNESVILLE NATIONAL BANK,
Waynesville, Ohio, and IFC Bank of Waynesville, National Association, Waynesville, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Waynesville National Bank, Waynesville, Ohio (2220), with | $35,881,724 | 2 | ——— |
| and IFC Bank of Waynesville, National Association, Waynesville, Ohio (2220), which had | 60,000 | 0 | ——— |
| merged June 1, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 35,881,724 | ——— | 2 |
| The resulting bank is a subsidiary of Interstate Financial Corporation, Dayton, Ohio. | | | |

* * *

## UPPER DAUPHIN NATIONAL BANK,
Millersburg, Pa., and Upper Dauphin Interim National Bank, Millersburg, Pa.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Upper Dauphin National Bank, Millersburg, Pa. (2252), with | $65,970,000 | 6 | ——— |
| and Upper Dauphin Interim National Bank, Millersburg, Pa (2252), which had | 60,000 | 0 | ——— |
| merged June 2, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | | ——— | 6 |
| The resulting bank is a subsidiary of Upper Dauphin Bancorp, Inc., Millersburg, Pa | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983 report of condition for the [illegible] bank. Information as of date of consummation was not available at press time.

* * *

## THE MERCHANTS NATIONAL BANK OF MUNCIE,
Muncie, Ind., and First Merchants National Bank, Muncie, Ind.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Merchants National Bank of Muncie, Muncie, Ind. (2234), with | $314,226,672 | 13 | _____ |
| and First Merchants National Bank, Muncie, Ind. (2234), which had | 240,930 | 0 | _____ |
| merged June 14, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 314,467,602 | _____ | 13 |
| The resulting bank is a subsidiary of First Merchants Corporation, Muncie, Ind. | | | |

* * *

## COUNTY NATIONAL BANK OF MONTROSE,
Montrose, Pa., and M.H.L.R. National Bank, Montrose, Pa.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| County National Bank of Montrose, Montrose, Pa. (2223), with | $106,289,000 | 10 | _____ |
| and M.H.L.R. National Bank, Montrose, Pa. (2223), which had | 120,000 | 0 | _____ |
| merged June 22, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 106,289,000 | _____ | 10 |
| The resulting bank is a subsidiary of County Bancorp, Inc., Montrose, Pa. | | | |

* * *

## THE FIRST NATIONAL BANK OF JESSUP,
Jessup, Pa., and FNB National Bank, Jessup, Pa.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank of Jessup, Jessup, Pa. (9600), with | $20,799,000 | 1 | _____ |
| and FNB National Bank, Jessup, Pa. (9600), which had | 120,000 | 0 | _____ |
| merged June 23, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 20,799,000 | _____ | 1 |
| The resulting bank is a subsidiary of First Jessup Corp., Jessup, Pa. | | | |

* * *

## LEBANON VALLEY NATIONAL BANK,
Lebanon, Pa., and Lebanon Valley National Interim Bank, Lebanon, Pa.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Lebanon Valley National Bank, Lebanon, Pa. (680), with | $239,171,182 | 10 | _____ |
| and Lebanon Valley National Interim Bank, Lebanon, Pa. (680), which had | 120,000 | 0 | _____ |
| merged June 24, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | 239,171,182 | _____ | 10 |
| The resulting bank is a subsidiary of Keystone Heritage Group, Inc., Lebanon, Pa. | | | |

* * *

## AMERICAN NATIONAL BANK AND TRUST CO.,
Rockford, Ill., and American Interim National Bank and Trust Co., Rockford, Ill.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| American National Bank and Trust Co., Rockford, Ill. (9823), with | $325,136,000 | 1 | _____ |
| and American Interim National Bank and Trust Co., Rockford, Ill. (9823), which had | 240,000 | 0 | _____ |
| consolidated June 27, 1983, under charter and title of the former. The consolidated bank at date of consolidation had | | _____ | 2 |
| The resulting bank is a subsidiary of Americorp Financial, Inc., Rockford, Ill. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## DELTA NATIONAL BANK,
Manteca, Calif., and New Delta National Bank, Manteca, Calif.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Delta National Bank, Manteca, Calif. (16154), with | $32,365,000 | 3 | _____ |
| and New Delta National Bank, Manteca, Calif. (16154), which had | 240,000 | 0 | _____ |
| merged June 27, 1983, under charter of the latter and title of the former. The merged bank at date of merger had | | _____ | 3 |
| The resulting bank is a subsidiary of Delta National Bancorp, Manteca, Calif. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## CITIZENS NATIONAL BANK OF TEMPLE,
Temple, Tex., and Texas American Bank/Temple, National Association, Temple, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Citizens National Bank of Temple, Temple, Tex. (16404), with | $35,649,409 | 1 | _____ |
| and Texas American Bank/Temple, National Association, Temple, Tex. (16404), which had | 120,000 | 0 | _____ |
| merged June 28, 1983, under charter and title of the latter. The merged bank at date of merger had | 35,769,409 | _____ | 1 |
| The resulting bank is a subsidiary of Texas American Bancshares, Inc., Fort Worth, Tex. | | | |

* * *

## COMMERCE BANK NATIONAL ASSOCIATION
Evesham Township (Marlton) N.J., and Commerce Interim National Bank, Evesham Township (Marlton), N.J.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Commerce Bank, National Association, Evesham Township (Marlton), N.J. (17094), with . . | $104,028,000 | 6 | _____ |
| and Commerce Interim National Bank, Evesham Township (Marlton), N.J. (17094), which had | 120,000 | 0 | _____ |
| merged June 29, 1983, under charter of the latter and title of the former. The merged bank at date of merger had . . . . . | | _____ | 6 |
| The resulting bank is a subsidiary of Commerce Bancorp, Inc., Evesham Township (Marlton), N.J. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

* * *

## THE FIRST NATIONAL BANK AND TRUST COMPANY ATHENS, TENNESSEE,
Athens, Tenn., and Interim National Bank of Athens, Athens, Tenn.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank and Trust Company Athens, Tennessee, Athens, Tenn. (3341), with . . . . | $64,978,000 | 4 | _____ |
| and Interim National Bank of Athens, Athens, Tenn. (3341), which had . . . . . | 120,000 | 0 | _____ |
| consolidated June 30, 1983, under charter of the latter and title of the former. The consolidated bank at date of consolidation had . . . . . | | _____ | 4 |
| The resulting bank is a subsidiary of First Franklin Bancshares, Inc., Athens, Tenn. | | | |

* Asset figures are from the organizing information for the organizing bank and from the March 31, 1983, report of condition for the operating bank. Information as of date of consummation was not available at press time.

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## *Branches* of national banks, by states, January 1 to June 30, 1983*

| | *Branches in operation January 1, 1983†* | *De novo branches opened for business January 1 to June 30, 1983* | *Branches acquired through merger or conversion January 1 to June 30, 1983* | *Existing branches discontinued or converted January 1 to June 30, 1983* | *Branches in operation June 30, 1983†* |
|---|---|---|---|---|---|
| Total | 20 786 | 225 | 67 | 128 | 20 950 |
| Alabama | 346 | 3 | 14 | 5 | 358 |
| Alaska | 83 | 1 | 0 | 0 | 84 |
| Arizona | 390 | 0 | 0 | 0 | 390 |
| Arkansas | 189 | 2 | 1 | 0 | 192 |
| California | 2,783 | 29 | 0 | 28 | 2,784 |
| Colorado | 46 | 0 | 0 | 0 | 46 |
| Connecticut | 309 | 0 | 0 | 0 | 309 |
| Delaware | 12 | 0 | 0 | 0 | 12 |
| District of Columbia | 162 | 1 | 0 | 2 | 161 |
| Florida | 1 044 | 55 | 0 | 7 | 1 092 |
| Georgia | 434 | 7 | 0 | 1 | 440 |
| Hawaii | 11 | 0 | 0 | 0 | 11 |
| Idaho | 193 | 0 | 0 | 2 | 191 |
| Illinois | 265 | 0 | 0 | 0 | 265 |
| Indiana | 560 | 8 | 0 | 0 | 568 |
| Iowa | 106 | 2 | 0 | 0 | 108 |
| Kansas | 81 | 1 | 0 | 0 | 82 |
| Kentucky | 291 | 4 | 0 | 0 | 295 |
| Louisiana | 288 | 5 | 18 | 3 | 308 |
| Maine | 115 | 0 | 0 | 0 | 115 |
| Maryland | 523 | 6 | 0 | 2 | 527 |
| Massachusetts | 496 | 3 | 2 | 0 | 501 |
| Michigan | 988 | 2 | 0 | 7 | 983 |
| Minnesota | 128 | 3 | 0 | 4 | 127 |
| Mississippi | 310 | 3 | 1 | 8 | 306 |
| Missouri | 88 | 2 | 0 | 0 | 90 |
| Montana | 10 | 0 | 0 | 0 | 10 |
| Nebraska | 63 | 0 | 0 | 1 | 62 |
| Nevada | 92 | 1 | 0 | 1 | 92 |
| New Hampshire | 101 | 0 | 0 | 0 | 101 |
| New Jersey | 1,044 | 2 | 0 | 1 | 1 045 |
| New Mexico | 128 | 1 | 0 | 0 | 129 |
| New York | 2,012 | 2 | 0 | 4 | 2 010 |
| North Carolina | 969 | 4 | 0 | 19 | 954 |
| North Dakota | 29 | 0 | 0 | 1 | 28 |
| Ohio | 1 428 | 36 | 0 | 0 | 1 464 |
| Oklahoma | 63 | 3 | 0 | 0 | 66 |
| Oregon | 357 | 0 | 0 | 3 | 354 |
| Pennsylvania | 1,495 | 3 | 0 | 0 | 1 498 |
| Rhode Island | 112 | 1 | 0 | 0 | 113 |
| South Carolina | 375 | 3 | 0 | 2 | 376 |
| South Dakota | 98 | 0 | 5 | 0 | 103 |
| Tennessee | 372 | 2 | 23 | 21 | 376 |
| Texas | 41 | 6 | 0 | 0 | 47 |
| Utah | 177 | 1 | 0 | 0 | 178 |
| Vermont | 50 | 0 | 0 | 0 | 50 |
| Virginia | 726 | 5 | 0 | 1 | 730 |
| Washington | 656 | 2 | 0 | 5 | 653 |
| West Virginia | 40 | 8 | 0 | 0 | 48 |
| Wisconsin | 107 | 8 | 3 | 0 | 118 |
| Wyoming | 0 | 0 | 0 | 0 | 0 |

* Does not include CBCT or foreign branches. For those branches see pp. 166–167.
† Some state totals have been changed to reflect adjustments of December 31, 1982 data.

## CBCT branches* of national banks, by states, January 1 to June 30, 1983

| | Branches in operation January 1, 1983† | De novo branches opened for business January 1 to June 30, 1983 | Branches acquired through merger or conversion January 1 to June 30, 1983 | Existing branches discontinued or consolidated January 1 to June 30, 1983 | Branches in operation June 30, 1983 |
|---|---|---|---|---|---|
| Total | 2,253 | 125 | 5 | 17 | 2,366 |
| Alabama | 39 | 0 | 0 | 0 | 39 |
| Alaska | 5 | 0 | 0 | 0 | 5 |
| Arizona | 18 | 1 | 0 | 0 | 19 |
| Arkansas | 16 | 0 | 0 | 0 | 16 |
| California | 68 | 4 | 0 | 0 | 72 |
| Colorado | 48 | 1 | 0 | 0 | 49 |
| Connecticut | 7 | 0 | 0 | 0 | 7 |
| Delaware | 0 | 0 | 0 | 0 | 0 |
| District of Columbia | 4 | 0 | 0 | 0 | 4 |
| Florida | 65 | 1 | 0 | 0 | 66 |
| Georgia | 44 | 5 | 0 | 1 | 48 |
| Hawaii | 0 | 0 | 0 | 0 | 0 |
| Idaho | 2 | 1 | 0 | 0 | 3 |
| Illinois | 73 | 0 | 0 | 0 | 73 |
| Indiana | 26 | 3 | 0 | 0 | 29 |
| Iowa | 77 | 6 | 0 | 0 | 83 |
| Kansas | 62 | 0 | 0 | 0 | 62 |
| Kentucky | 22 | 1 | 0 | 0 | 23 |
| Louisiana | 24 | 2 | 5 | 0 | 31 |
| Maine | 42 | 0 | 0 | 0 | 42 |
| Maryland | 24 | 0 | 0 | 0 | 24 |
| Massachusetts | 141 | 1 | 0 | 0 | 142 |
| Michigan | 120 | 2 | 0 | 2 | 120 |
| Minnesota | 66 | 3 | 0 | 3 | 66 |
| Mississippi | 3 | 1 | 0 | 0 | 4 |
| Missouri | 3 | 1 | 0 | 0 | 4 |
| Montana | 23 | 0 | 0 | 0 | 23 |
| Nebraska | 130 | 5 | 0 | 0 | 135 |
| Nevada | 10 | 4 | 0 | 0 | 14 |
| New Hampshire | 1 | 0 | 0 | 0 | 1 |
| New Jersey | 23 | 1 | 0 | 0 | 24 |
| New Mexico | 5 | 1 | 0 | 0 | 6 |
| New York | 258 | 1 | 0 | 0 | 259 |
| North Carolina | 27 | 0 | 0 | 0 | 27 |
| North Dakota | 17 | 0 | 0 | 0 | 17 |
| Ohio | 102 | 9 | 0 | 0 | 111 |
| Oklahoma | 194 | 6 | 0 | 0 | 200 |
| Oregon | 8 | 0 | 0 | 0 | 8 |
| Pennsylvania | 93 | 19 | 0 | 0 | 112 |
| Rhode Island | 1 | 0 | 0 | 0 | 1 |
| South Carolina | 36 | 1 | 0 | 0 | 37 |
| South Dakota | 14 | 0 | 0 | 7 | 7 |
| Tennessee | 66 | 2 | 0 | 0 | 68 |
| Texas | 146 | 28 | 0 | 0 | 174 |
| Utah | 0 | 1 | 0 | 0 | 1 |
| Vermont | 0 | 0 | 0 | 0 | 0 |
| Virginia | 9 | 1 | 0 | 0 | 10 |
| Washington | 12 | 1 | 0 | 0 | 13 |
| West Virginia | 2 | 12 | 0 | 0 | 14 |
| Wisconsin | 77 | 0 | 0 | 4 | 73 |
| Wyoming | 0 | 0 | 0 | 0 | 0 |

* Customer bank communication terminal branches

† Some state totals have been changed to reflect adjustments of December 31, 1982 data

## *Federal branches and agencies of foreign banks, by state*

| | Federal branches and agencies—open Jan. 1, 1983 | Federal branches and agencies—approved unopened Jan. 1, 1983 | Applications, January 1 to June 30, 1983 | | | | | | Federal branches and agencies—opened or converted Jan. 1 to June 30 | Federal branches and agencies—approved unopened June 30, 1983 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Pending Jan. 1 | Received | Approved | Disapproved | Withdrawn | Pending June 30 | | |
| Total *de novo* | 46 | 17 | 10 | 9 | 5 | 1 | 2 | 11 | 11 | 10 |
| *Federal branch* | | | | | | | | | | |
| California | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| District of Columbia | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New York | 25 | 9 | 4 | 7 | 2 | 0 | 1 | 8 | 6 | 5 |
| *Limited Federal branch* | | | | | | | | | | |
| California | 2 | 2 | 1 | 0 | 0 | 0 | 1 | 0 | 1 | 1 |
| District of Columbia | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Illinois | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| New York | 1 | 3 | 2 | 0 | 0 | 0 | 0 | 2 | 3 | 0 |
| Washington | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Federal agency* | | | | | | | | | | |
| California | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Florida | 5 | 1 | 2 | 2 | 2 | 1 | 0 | 1 | 0 | 2 |
| Louisiana | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| New York | 2 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 0 |
| Total conversions | 7 | 2 | 1 | 4 | 3 | 0 | 0 | 2 | 1 | 4 |
| *State agency to Federal branch* | | | | | | | | | | |
| New York | 7 | 2 | 1 | 3 | 3 | 0 | 0 | 1 | 1 | 4 |
| *State agency to limited Federal branch* | | | | | | | | | | |
| California | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 0 |

## Applications for national bank charters, January 1 to June 30, 1983

| | De novo | | | Pursuant to corporate reorganization | | | State chartered banks converted to national banks |
|---|---|---|---|---|---|---|---|
| | Approved | Rejected | Charters issued | Approved | Rejected | Charters issued | |
| Total | 141 | 6 | 157 | 52 | 0 | 82 | 19 |
| Alabama | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| Alaska | 0 | 0 | 0 | 1 | 0 | 0 | 0 |
| Arizona | 2 | 0 | 0 | 1 | 0 | 0 | 0 |
| Arkansas | 0 | 0 | 0 | 2 | 0 | 0 | 0 |
| California | 14 | 1 | 25 | 4 | 0 | 6 | 2 |
| Colorado | 11 | 0 | 8 | 0 | 0 | 0 | 3 |
| Connecticut | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Delaware | 0 | 0 | 1 | 0 | 0 | 0 | 2 |
| District of Columbia | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Florida | 11 | 0 | 15 | 3 | 0 | 1 | 0 |
| Georgia | 0 | 0 | 0 | 3 | 0 | 3 | 1 |
| Hawaii | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Idaho | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Illinois | 0 | 0 | 1 | 5 | 0 | 5 | 0 |
| Indiana | 0 | 0 | 0 | 2 | 0 | 12 | 0 |
| Iowa | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| Kansas | 4 | 0 | 3 | 2 | 0 | 1 | 0 |
| Kentucky | 0 | 0 | 0 | 5 | 0 | 0 | 0 |
| Louisiana | 2 | 0 | 4 | 3 | 0 | 3 | 0 |
| Maine | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| Maryland | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Massachusetts | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Michigan | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Minnesota | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Mississippi | 0 | 0 | 0 | 0 | 0 | 2 | 0 |
| Missouri | 1 | 0 | 4 | 0 | 0 | 3 | 0 |
| Montana | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nebraska | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Nevada | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| New Hampshire | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New Jersey | 0 | 0 | 0 | 1 | 0 | 6 | 0 |
| New Mexico | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| New York | 3 | 0 | 1 | 1 | 0 | 1 | 0 |
| North Carolina | 0 | 0 | 0 | 2 | 0 | 1 | 0 |
| North Dakota | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ohio | 0 | 0 | 2 | 0 | 0 | 7 | 0 |
| Oklahoma | 8 | 0 | 10 | 0 | 0 | 0 | 1 |
| Oregon | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pennsylvania | 0 | 0 | 0 | 3 | 0 | 12 | 1 |
| Rhode Island | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| South Carolina | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| South Dakota | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tennessee | 1 | 0 | 1 | 3 | 0 | 3 | 3 |
| Texas | 79 | 5 | 74 | 7 | 0 | 8 | 2 |
| Utah | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Vermont | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| Virginia | 0 | 0 | 0 | 2 | 0 | 1 | 2 |
| Washington | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| West Virginia | 1 | 0 | 0 | 2 | 0 | 3 | 0 |
| Wisconsin | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| Wyoming | 2 | 0 | 0 | 0 | 0 | 0 | 0 |

## *Applications for national bank charters, approved and rejected, by states, January 1 to June 30, 1983*

| | Approved | Rejected |
|---|---|---|
| **ARIZONA** | | |
| Camelback National Bank, Phoenix | June 27 | |
| First Interstate Bank of Westminster, National Association, Westminster | June 27 | |
| **CALIFORNIA** | | |
| American Commerce National Bank Anaheim | June 9 | |
| Federal National Bank, Anaheim | Feb 4 | |
| Burbank Banking Company, National Association, Burbank | Apr 15 | |
| Western Security Bank, National Association, Burbank | Apr 11 | |
| Culver National Bank, Culver City | June 15 | |
| Bank of Del Mar, National Association, Del Mar | Apr 16 | |
| Fontana First National Bank, Fontana | May 23 | |
| Beach City Bank, National Association, Huntington Beach | Feb 4 | |
| La Mesa National Bank, La Mesa | | May 18 |
| Harbon National Bank, Larkspur | June 30 | |
| First Capitol National Bank, Monterey | June 21 | |
| Monument National Bank, Ridgecrest | May 31 | |
| Gateway Banking Company, National Association, San Francisco | June 2 | |
| San Marcos National Bank, San Marcos | Mar 18 | |
| South Hills National Bank, West Covina | Feb 2 | |
| **COLORADO** | | |
| First Interstate Bank of Arvada, National Association, Arvada | June 3 | |
| American National Bank of Aurora, Aurora | Feb 3 | |
| First National Bank of Arapahoe County, Aurora | May 16 | |
| The Western National Bank of Colorado, Colorado Springs | May 26 | |
| Bank Glendale, National Association, Denver | Feb. 3 | |
| Bennett National Bank, Denver | Mar. 21 | |
| Landmark National Bank, Denver | Jan 5 | |
| United Bank of Academy Place, National Association, Denver | Apr 5 | |
| American National Bank of Evanston, Evanston | Feb 3 | |
| First National Bank of Lake City, Lake City | May 16 | |
| First Bank at County Line Road/Holly, National Association, Lakewood | Apr 14 | |
| **CONNECTICUT** | | |
| Community National Bank, Glastonbury | June 27 | |
| **FLORIDA** | | |
| First National State Trust Company, Boca Raton | Apr 11 | |
| Commercial National Bank, Daytona Beach | June 10 | |
| Citizens First National Bank of Hernando County, Hernando County | Apr 8 | |
| Seminole National Bank, Hollywood | June 3 | |
| Barnett Bank of Osceola County, National Association, Kissimmee | Feb 9 | |
| The Bank of N Y Trust Company of Florida, National Association, Miami | Jan 5 | |
| Trade National Bank, Miami | Jan 14 | |
| Key Trust Company of Florida, National Association, Orlando | Feb 7 | |
| American National Bank, Panama City | Mar 18 | |
| Wilmington Trust of Florida, National Association, Stuart | Jan 11 | |
| First National Bank of the South, Weslye Chapel | May 20 | |
| **KANSAS** | | |
| First National Bank, Haysville | Mar 15 | |
| First National Bank of Holcomb, Holcomb | May 23 | |
| First National Bank and Trust Company of Lenexa, Lenexa | May 16 | |
| The Columbia National Bank and Trust Company, Topeka | June 1 | |
| **LOUISIANA** | | |
| Acadiana National Bank, Lafayette | June 30 | |
| American Bank of Ruston, National Association, Ruston | Feb 4 | |
| **MISSOURI** | | |
| First Missouri Bank of St Peters, National Association, St Peters | Jan 20 | |
| **NEW YORK** | | |
| Asian National Bank, Flushing | May 4 | |
| Dreyfus National Bank and Trust Company New York | Feb 7 | |
| Eastern National Bank, New York | Apr 14 | |
| **OKLAHOMA** | | |
| Bank of Edmond, National Association Edmond | June 30 | |
| American National Bank, Elk City | May 23 | |
| Heritage National Bank, Oklahoma City | May 19 | |
| American National Bank, Ponca City | May 19 | |
| First National Bank, Purcell | June 10 | |
| Purcell Bank, National Association, Purcell | June 30 | |
| The First Oklahoma Bank, National Association, Shawnee | June 30 | |
| Triad Bank, National Association, Tulsa | May 19 | |
| **SOUTH DAKOTA** | | |
| Rainier Bank, National Association, Rapid City | Apr 7 | |
| **TENNESSEE** | | |
| Third National Bank in Anderson County Lake City | May 27 | |
| **TEXAS** | | |
| First National Bank of Aransas Pass, Aransas Pass | Jan 28 | |
| Lincoln National Bank, Arlington | May 27 | |
| BancFirst—Austin, National Association, Austin | Apr 14 | |
| BancFirst—Westlake, National Association, Austin | June 17 | |
| Heritage National Bank, Austin | May 25 | |
| Texas National Bank, Austin | May 27 | |
| South Coast National Bank, Baytown | | May 9 |
| Beaumont Bank—National Association, Beaumont | May 13 | |
| Citizens National Bank of Bellaire, Bellaire | Apr 7 | |
| Belton National Bank, Belton | June 27 | |
| Northwest Bank, National Association, Bexar County | May 4 | |
| National Bank of Waller County, Brookshire | Mar 1 | |
| First National Bank of Cleveland, Cleveland | Mar 18 | |
| Clifton National Bank, Clifton | June 3 | |
| Conroe Bank, National Association, Conroe | Apr 7 | |
| Padre Island National Bank, Corpus Christi | | May 16 |
| Abrams Centre National Bank, Dallas | May 5 | |
| Executive Centre Bank, National Association, Dallas | May 23 | |
| Fidelity National Bank, Dallas | June 2 | |
| Grand Bank LBJ at Hillcrest, National Association, Dallas | Mar 17 | |
| Grand Bank Stemmons at Regal Row National Association, Dallas | Mar 17 | |
| Medallion National Bank, Dallas | May 16 | |
| Preston North National Bank, Dallas | Mar 18 | |
| Signature Place Bank, National Association, Dallas | Mar 18 | |
| Texas Commerce Bank—Brookhollow National Association, Dallas | June 10 | |
| Duncanville National Bank, Duncanville | May 20 | |
| Citizens National Bank, El Campo | May 25 | |
| Security National Bank, Elgin | Apr 6 | |
| Texas National Bank, El Paso | May 25 | |
| Palm West Bank, National Association Farmers Branch | Mar 18 | |

*Applications for national bank charters, approved and rejected, by states, July 1 to December 31, 1982*—continued*

| | Approved | Rejected |
|---|---|---|
| Texas Commerce Bank—Sugarland National Association, Fort Bend County | Jan 31 | |
| Capital National Bank, Fort Worth | June 2 | |
| First National Bank of Frisco, Frisco | May 13 | |
| First National Bank of Goldthwaite, Mills County | June 17 | |
| Goldthwaite National Bank, Goldthwaite | June 17 | |
| American National Bank, Gonzales | June 17 | |
| Community National Bank, Harris County | May 16 | |
| Cy-Fair National Bank, Harris County | Apr 19 | |
| First National Bank, Haskell | Mar 2 | |
| Allied Bank—Steeplechase National Association, Houston | Mar 18 | |
| Champions Point National Bank, Houston | May 19 | |
| Charter National Bank—Arena, Houston | Apr 6 | |
| First National Bank of Holliday, Holliday | | Apr 14 |
| Houston National Bank, Houston | May 4 | |
| Northwest Commercial Bank, National Association, Houston | May 23 | |
| Park National Bank of Houston, Houston | June 27 | |
| ResourceBank, National Association, Houston | Feb 4 | |
| Steeplechase National Bank, Houston | Feb 2 | |
| Texas National Bank, Houston | Mar 18 | |
| The Bank, National Association, Houston | May 23 | |
| Westwood National Bank, Houston | May 19 | |
| Wilcrest National Bank, Houston | Jan 27 | |
| South Central National Bank, Houston | June 27 | |
| Peoples National Bank, Hudson | Jan 20 | |
| Jefferson National Bank, Jefferson | Apr 14 | |
| Kingwood Bank, National Association, Kingwood | May 19 | |
| Lakeview National Bank, Lake Palestine | | Mar 9 |
| Shady Oaks National Bank, Lake Worth | May 23 | |
| Metropolitan National Bank—Lewisville, Lewisville | May 19 | |
| Federated National Bank, Live Oak | June 9 | |
| Capital National Bank, Lubbock | Apr 19 | |
| East Texas National Bank of Harris County, Marshall | | June 9 |
| La Plaza National Bank, McAllen | Feb 22 | |
| Rio National Bank, McAllen | Mar 22 | |
| Mesquite National Bank, Mesquite | May 13 | |
| Community National Bank, Midland | Apr 6 | |
| Midlothian National Bank, Midlothian | June 15 | |
| American National Bank, Odessa | May 4 | |
| Allied Bank Port Arthur, National Association, Port Arthur | Jan 31 | |
| Texas Commerce Bank—Richardson, National Association, Richardson | June 10 | |
| First National Bank of Sachse, Sachse | June 27 | |
| Castle Hills Bank, National Association, San Antonio | June 10 | |
| Executive Center Bank, National Association, San Antonio | May 19 | |
| First City Bank—Forum, National Association, San Antonio | May 20 | |
| First International Bank, National Association, San Antonio | June 15 | |
| Intercontinental National Bank—Starcrest, San Antonio | May 20 | |
| Trinity National Bank, San Antonio | May 19 | |
| First National Bank of Sealy, Sealy | Jan 31 | |
| Stanton National Bank, Stanton | Feb 16 | |
| Texarkana National Bank—Central Plaza, Texarkana | June 15 | |
| Bank of Waco, National Association, Waco | May 19 | |
| City National Bank of Weatherford, Weatherford | Jan 31 | |
| Bank of the Woodlands, National Association, Woodlands | Mar 1 | |
| First National Bank of Woodville, Woodville | Jan 26 | |
| **WEST VIRGINIA** | | |
| One Valley National Bank of Kanawha City, Charleston | June 10 | |
| **WYOMING** | | |
| American National Bank of Evanston, Evanston | Jan 20 | |
| Bank in Gillette, National Association, Gillette | Mar 27 | |

## *Applications for national bank charters pursuant to corporate reorganizations, by states, January 1 to June 30, 1983*

| | Approved | Rejected |
|---|---|---|
| **ALASKA** | | |
| Rainier Bank Alaska, National Association, Anchorage | Mar 11 | ——— |
| **ARIZONA** | | |
| National Bank of Arizona, Scottsdale | June 10 | ——— |
| **ARKANSAS** | | |
| Interim National Bank, Camden | June 15 | ——— |
| New First National Bank of Fordyce, Fordyce | Jan 26 | ——— |
| **CALIFORNIA** | | |
| The Interim National Bank of Carmel, Carmel | Feb. 1 | ——— |
| New National Bank of La Jolla, La Jolla | Mar 3 | ——— |
| Interim Mercantile National Bank, Los Angeles | Apr 7 | ——— |
| New Mission Viejo National Bank, Mission Viejo | Apr 27 | ——— |
| **FLORIDA** | | |
| Citizens Interim Bank, National Association (CIB), Leesburg | Mar 22 | ——— |
| First Interim National Bank & Trust Company, Stuart | Apr 6 | ——— |
| PNC Trust Company of Florida, National Association, Tampa | Apr. 7 | ——— |
| **GEORGIA** | | |
| First Interim National Bank in Elberton, Elberton | Feb 9 | ——— |
| NBC Chatham Bank, National Association, Savannah | Feb. 22 | ——— |
| Interim National Bank of West Point, West Point | Feb. 24 | ——— |
| **ILLINOIS** | | |
| UNB National Bank of Chicago, Chicago | Jan 24 | ——— |
| Second National Bank of Marshall, Marshall | Mar 4 | ——— |
| FNMP National Bank, Mt Prospect | May 25 | ——— |
| FNLZ National Bank, Lake Zurich | May 25 | ——— |
| American Interim National Bank and Trust Company, Rockford | Jan 26 | ——— |
| **INDIANA** | | |
| Huntingburg National Service Bank, Huntingburg | Jan 31 | ——— |
| Michigan City National Bank, Michigan City | May 16 | ——— |
| **KANSAS** | | |
| KNB National Bank, Goodland | Feb 17 | ——— |
| Uni National Bank of Wichita, Wichita | Jan. 12 | ——— |
| **KENTUCKY** | | |
| Boyle National Bank, Danville | Mar 14 | ——— |
| CBD Bank National Association Danville | May 23 | ——— |
| CV National Bank London | May 16 | ——— |
| New First National Bank in London London | May 16 | ——— |
| PFN Bank, National Association Paducah | May 16 | ——— |
| **LOUISIANA** | | |
| CNB National Bank, Hammond | Feb 17 | ——— |
| FNBJ National Bank Iberia Parish | May 2 | ——— |
| NNB National Bank New Iberia | May 2 | ——— |
| **NEW JERSEY** | | |
| CNB Interim Bank, National Association Newark | Mar 15 | ——— |
| **NEW YORK** | | |
| HV National Bank, Yonkers | Mar 8 | ——— |
| **NORTH CAROLINA** | | |
| CNB National Bank, Concord | Mar 29 | ——— |
| Central Carolina Bank and Trust Company National Association, Durham | Feb 2 | ——— |
| **PENNSYLVANIA** | | |
| FNB National Bank Jessup | Mar 4 | ——— |
| M.H L R. National Bank, Montrose | Mar 2 | ——— |
| FNB Interim National Bank, Newton | Feb 4 | ——— |
| **TENNESSEE** | | |
| First American Bank of Chattanooga, National Association, Chattanooga | Mar 18 | ——— |
| FAB National Bank, Clinton | Mar 16 | ——— |
| First National Lewisburg Interim Bank Lewisburg | Mar 8 | ——— |
| **TEXAS** | | |
| New American National Bank, Bay City | Apr 11 | ——— |
| Grand National Bank, Bedford | Apr 18 | ——— |
| MNB—Farmers Branch National Bank, Farmers Branch | May 18 | ——— |
| New Eisenhower National Bank, Ft Sam Houston | Apr 13 | ——— |
| Westhollow Bank, National Association, Houston | Feb 9 | ——— |
| MNB—Richardson National Bank, Richardson | May 25 | ——— |
| Spring Valley National Bank, Richardson | May 11 | ——— |
| **VIRGINIA** | | |
| Second National Bank of Emporia Emporia | Jan 24 | ——— |
| Strasburg National Bank, Strasburg | Mar 29 | ——— |
| **WEST VIRGINIA** | | |
| Appalachian National Bank, Beckley | Feb 2 | ——— |
| Interim National Bank of Keyser, Keyser | Apr 21 | ——— |

## Charters issued to new national banks, by states, January 1 to June 30, 1983

| [illegible] | [illegible] | [illegible] |
|---|---|---|
| | [illegible] | $365,[illegible] |
| | ALABAMA | |
| [illegible] | [illegible] | 700,000 |
| [illegible] | [illegible] | 1,100,000 |
| | CALIFORNIA | |
| [illegible] | Auburn Bank of Commerce, N.A., Auburn | 2,500,000 |
| [illegible] | Mid Cities National Bank, Bellflower | 2,500,000 |
| [illegible] | [illegible] Bank, N.A., Buena Park | 3,500,000 |
| [illegible] | Western Family Bank, N.A., Carlsbad | 3,000,000 |
| [illegible] | Commerce National Bank, Commerce | 4,000,000 |
| [illegible] | Tri-Valley National Bank, Dublin | 2,500,000 |
| 17658 | Hidden Valley National Bank, Escondido | 2,607,500 |
| 17640 | Lamorinda National Bank, Lafayette | 4,500,000 |
| [illegible] | First Charter Bank, N.A., Los Angeles | 6,604,250 |
| 17732 | Mid City Bank, N.A., Los Angeles | 3,500,000 |
| [illegible] | Olympic National Bank, Los Angeles | 6,000,000 |
| 17785 | United National Bank, Monterey Park | 4,026,000 |
| [illegible] | Balboa National Bank, National City | 2,887,490 |
| 17818 | California City Bank, National Association, Orange | 4,250,000 |
| 17622 | Pasadena First National Bank, Pasadena | 4,000,000 |
| 17806 | Empire Bank, National Association, Rancho Cucamonga | 3,750,000 |
| 17823 | Mission Valley Bank, National Association, San Clemente | 2,299,970 |
| 17676 | Valle de Oro Bank, National Association, Spring Valley | 2,500,000 |
| 17683 | Grand National Bank, Santa Ana | 4,191,750 |
| 17639 | Columbia National Bank, Santa Monica | 4,000,000 |
| 17623 | National Bank of Southern California, Santa Ana | 4,500,000 |
| 17577 | Taft National Bank, Taft | 4,140,000 |
| 17582 | Conejo Valley National Bank, Thousand Oaks | 4,000,000 |
| 17583 | Frontier National Bank, Vista | 2,500,000 |
| 17759 | Pajaro Valley Bank, N.A., Watsonville | 3,400,000 |
| | COLORADO | |
| 17584 | City Center National Bank, Aurora | 1,000,000 |
| 17798 | First National Bank of Arapahoe County, Aurora | 800,000 |
| 17637 | Central Bank of Chapel Hills, National Association, Colorado Springs | 1,000,000 |
| 17638 | Metro National Bank, Tech Center, Denver | 2,000,000 |
| 17801 | First National Bank of Lake City, Lake City | 750,000 |
| 17655 | Colorado National Bank, Southwest, Littleton | 1,500,000 |
| 17804 | Valley National Bank, Loveland | 1,000,000 |
| 17645 | First National Bank of Pagosa Springs, Pagosa Springs | 1,000,000 |
| | DELAWARE | |
| 17762 | Beneficial National Bank (U.S.A.), Wilmington | 3,000,000 |
| | DISTRICT OF COLUMBIA | |
| 17786 | The Palmer National Bank, Washington | 3,000,000 |
| | FLORIDA | |
| 17775 | NCNB National Bank of Florida, Boca Raton | 240,000 |
| 17674 | The Chase Manhattan Trust Company of Florida, National Association, Boca Raton | 1,000,000 |
| 17773 | Bank of Florida, N.A., Chiefland | 1,052,500 |
| 17788 | Citizens First National Bank, Crescent City | 1,200,000 |
| 17834 | Flagship National Bank of Citrus County, Crystal River | 1,500,000 |
| 17746 | First Bank of Hialeah Gardens, National Association, Hialeah Gardens | 2,600,000 |
| 17566 | Florida Coast Midlantic Trust Company, N.A., Lighthouse Point | 1,500,000 |
| [illegible] | Alliance National Bank, Miami | 2,000,000 |
| [illegible] | Trade National Bank, Miami | 2,500,000 |
| [illegible] | Commerce National Bank, Naples | 3,000,000 |
| [illegible] | Northern Trust Bank of Florida Naples, N.A., Naples | 800,000 |
| [illegible] | Atlantic National Bank of Florida at Orange Park, Orange | 1,500,000 |
| [illegible] | Key Trust Company of Florida, National Association, Orlando | 1,500,000 |
| [illegible] | Northern Trust Bank of Florida Palm Beach, N.A., Palm Beach | 1,000,000 |
| [illegible] | NCNB National Bank of Florida, Tampa | 240,000 |
| | [illegible] | |
| [illegible] | [illegible] National Bank, Oak Lawn | 8,300,000 |
| | KANSAS | |
| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |
| | [illegible] | |
| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] |

*Charters issued to new national banks, by states, January 1 to June 30, 1983— continued*

| Charter number | Title and location of bank | [illegible] |
|---|---|---|
| | MICHIGAN | |
| 17748 | Benzie National Bank, Frankfort | [illegible] |
| | MISSOURI | |
| 17700 | Lake National Bank, Lake Ozark | [illegible] |
| 17591 | Metropolitan National Bank, Springfield | [illegible] |
| 17694 | First Community National Bank of Crawford County, Steelville | [illegible] |
| 17702 | Landmark St. Louis Bank, N.A., St. Louis | 1 500 000 |
| | NEBRASKA | |
| 17719 | American National Bank of Fremont, Fremont | [illegible] |
| | NEVADA | |
| 17625 | Fallon National Bank of Nevada, Fallon | [illegible] |
| 17624 | Continental National Bank, Las Vegas | 3 000 000 |
| | NEW MEXICO | |
| 17644 | American National Bank of Santa Fe, Santa Fe | 1 500 000 |
| | NEW YORK | |
| 17708 | J. & W. Seligman Trust Company, N.A., New York | 750 000 |
| | OHIO | |
| 17595 | The Community National Bank, Franklin | 1 500 000 |
| 17646 | FTH National Bank, Hillsboro | 480 000 |
| | OKLAHOMA | |
| 17764 | American National Bank, Ardmore | 2 500 000 |
| 17650 | Citizens National Bank, Clinton | 2 000 000 |
| 17797 | American National Bank of Duncan, Duncan | 1 500 000 |
| 17807 | Oakwood National Bank, Enid | 2 000 000 |
| 17777 | Alliance Bank, National Association, Oklahoma City | 2 000 000 |
| 17745 | Charter National Bank, Oklahoma City | 5 000 000 |
| 17808 | Memorial Bank, N.A., Oklahoma City | 3 000 000 |
| 17610 | Century National Bank of Oklahoma, Pryor | 1 500 000 |
| 17809 | Affiliated Bank of Sapulpa, N.A., Sapulpa | 1 500 000 |
| 17713 | The First National Bank of Skiatook, Skiatook | 1 250 000 |
| | TENNESSEE | |
| 17778 | The Third National Bank in Anderson County, Lake City | 7 600 000 |
| | TEXAS | |
| 17614 | First State Bank of Wylie, N.A., Abilene | 2 500 000 |
| 17619 | First National Bank, Alice | 2 500 000 |
| 17697 | The National Bank of Andrews, Andrews | 3 000 000 |
| 17615 | Coastal National Bank, Angleton | 1 500 000 |
| 17634 | Bank of Athens, N.A., Athens | 1 500 000 |
| 17616 | Alliance Bank, N.A., Austin | 3 500 000 |
| 17600 | Century National Bank, Austin | 2 000 000 |
| 17795 | Congress National Bank, Austin | 3 000 000 |
| 17763 | Lake Austin National Bank, Austin | 2 500 000 |
| 17588 | United Bank Oak Hill, N.A., Austin | 2 000 000 |
| 17620 | Grand Bank Airport Freeway at Highway 157, N.A., Bedford | 2 000 000 |
| 17602 | First Consolidated Bank—Buda, N.A., Buda | 1 100 000 |
| 17710 | First National Bank of Bullard, Bullard | 1 500 000 |
| 17791 | Lake County National Bank, Burnet | 1 500 000 |
| 17598 | Cedar Hills National Bank, Cedar Hill | 1 500 000 |
| 17744 | National Bank of Conroe, Conroe | 2 500 000 |
| 17652 | City National Bank, Corsicana | [illegible] |
| 17627 | First National Bank of Crosby, Crosby | [illegible] |
| 17608 | CENTERBANK, N.A., Dallas | 6 000 000 |
| 17679 | Central National Bank, Dallas | 2 500 000 |
| 17647 | Grand Bank Central at Fitzhugh, N.A., Dallas | 2 000 000 |
| 17618 | Grand Bank—Woodall Rodgers, N.A., Dallas | 2 000 000 |
| 17617 | Oak Lawn Bank, N.A., Dallas | 2 500 000 |
| 17603 | Pavillion National Bank, Dallas | 2 500 000 |
| 17794 | American Bank of Commerce—East, National Association, El Paso | 2 000 000 |
| 17771 | Hulen National Bank, Fort Worth | [illegible] |
| 17587 | Western National Bank of Texas, Fort Worth | [illegible] |
| 17816 | Woodhaven National Bank, Fort Worth | [illegible] |
| 17626 | Pioneer National Bank, Fredericksburg | [illegible] |
| 17711 | Georgetown National Bank, Georgetown | [illegible] |
| 17612 | Allied North Belt, N.A., Houston | [illegible] |
| 17772 | Asian American National Bank, Houston | [illegible] |

*Charters issued to new national banks, by states, January 1 to June 30, 1983—continued*

| Charter number | Title and location of bank | Total capital accounts |
|---|---|---|
| [illegible] | Chase Bank City West National Association, Houston | 4,000,000 |
| [illegible] | First City Bank—Meline Park Plaza, N.A., Houston | 4,000,000 |
| [illegible] | First Continental National Bank, Houston | 3,150,000 |
| 17747 | Harris County Bank—Airport, N.A., Houston | 2,000,000 |
| 17824 | National Bank of Texas, Houston | 4,000,000 |
| 17597 | PetroBank, N.A., Houston | 3,000,000 |
| 17607 | Riverway National Bank, Houston | 3,000,000 |
| 17728 | Tanglewood Bank, N.A., Houston | 3,150,000 |
| 17747 | Texas Commerce Bank—Champions Park, N.A., Houston | 1,700,000 |
| 17813 | Texas Commerce Bank—Greens Crossing, National Association, Houston | 1,800,000 |
| 17586 | Texas Commerce Bank—Westlake Park, N.A., Houston | 1,800,000 |
| 17605 | Wesleyan Bank, N.A., Houston | 3,000,000 |
| 17589 | West Belt National Bank, Houston | 2,000,000 |
| 17827 | Western Bank—North Wilcrest, National Association, Houston | 2,000,000 |
| 17601 | Woodway National Bank, Houston | 2,500,000 |
| 17743 | InterFirst Bank DFW Freeport, N.A., Irving | 2,000,000 |
| 17792 | Texas American Bank/Las Colinas, National Association, Irving | 2,500,000 |
| 17613 | Kingsland National Bank, Kingsland | 2,000,000 |
| 17680 | Lago Vista National Bank, Lago Vista | 1,500,000 |
| 17689 | Whisperwood National Bank, Lago Vista | 1,500,000 |
| 17606 | Llano National Bank, Llano | 2,000,000 |
| 17599 | Shadow Hills National Bank, Lubbock | 2,000,000 |
| 17631 | First National Bank of Missouri City, Missouri City | 3,000,000 |
| 17768 | The Bank of Navasota, National Association, Navasota | 1,500,000 |
| 17609 | Bank of the West, N.A., Odessa | 2,300,000 |
| 17828 | Crockett County National Bank, Ozona | 2,100,000 |
| 17814 | West Side National Bank of Pearland, Pearland | 3,000,000 |
| 17633 | Central National Bank Pharr, Texas, Pharr | 2,000,000 |
| 17611 | Lone Star National Bank, Pharr | 2,000,000 |
| 17651 | Texas American Bank/Plano, National Association, Plano | 2,000,000 |
| 17727 | Broadway Air Force National Bank, Randolph Air Force Base | 1,200,000 |
| 17649 | Alamo Bank North, N.A., San Antonio | 2,000,000 |
| 17793 | InterFirst Bank NW San Antonio, National Association, San Antonio | 3,000,000 |
| 17825 | Metropolitan National Bank, San Antonio | 2,000,000 |
| 17668 | National Bank of Commerce—Colonnade, San Antonio | 1,500,000 |
| 17709 | National Bank of Commerce—Perrin Beitel, San Antonio | 1,500,000 |
| 17826 | Somerset National Bank, Somerset | 1,500,000 |
| 17815 | Stone Oak National Bank, San Antonio | 2,400,000 |
| 17585 | Sutton County National Bank, Sonora | 1,500,000 |
| 17604 | First National Bank of Temple—South, Temple | 1,250,000 |
| 17691 | Tyler National Bank, Tyler | 2,000,000 |
| 17733 | First National Bank, Uvalde | 1,750,000 |

## *State-chartered banks converted to national banks, by states, January 1 to June 30, 1983*

(Dollar amounts in thousands)

| *Charter number* | *Title and location of bank* | *Effective date* | *Total assets* |
|---|---|---|---|
| | Total 19 banks | | $[illegible] |
| | CALIFORNIA | | |
| 17678 | Regency Bank, National Association, Fresno, conversion of Regency Savings and Loan Association | January 1 | 2 333 |
| 17554 | Bank of Southern California, National Association, San Diego, conversion of Point Loma Savings & Loan Association | January 3 | 2 666 |
| | COLORADO | | |
| 17757 | First National Bank of Southeast Denver, Denver, conversion of Mid States Bank | April 22 | 53 149 |
| 17820 | North American National Bank, Littleton conversion of First American Industrial Bank | April 29 | 469 |
| 17798 | First National Bank of Arapahoe County, Aurora conversion of Fidelity Bank and Trust | May 16 | 800 |
| | DELAWARE | | |
| 17539 | Beneficial National Bank, Wilmington, conversion of Peoples Bank and Trust Company | January 1 | 2,500 |
| 17629 | Girard Bank Delaware National Association, Wilmington, conversion of Girard Bank Delaware | February 17 | 20 763 |
| | GEORGIA | | |
| 17718 | First National Bank of Habersham, Cornelia, conversion of First Bank of Habersham | March 1 | 2,400 |
| | MASSACHUSETTS | | |
| 17578 | Bank of Boston—Bristol, National Association, New Bedford, conversion of Old Colony Bank and Trust Company of Bristol | January 31 | 4,025 |
| | MINNESOTA | | |
| 17714 | Heritage National Bank, North St Paul, conversion of Heritage State Bank | April 6 | 1 600 |
| | OKLAHOMA | | |
| 17596 | First National Bank of Roland, Roland, conversion of First State Bank of Roland | January 3 | 800 |
| | PENNSYLVANIA | | |
| 17721 | Bernville Bank, National Association, Bernville, conversion of Bernville Bank | April 15 | 550 |
| | TENNESSEE | | |
| 17840 | First American National Bank of Obion County, Union City, conversion of First American Bank of Obion County | June 1 | 4 621 |
| 17839 | First American National Bank of Knoxville, Knoxville, conversion of First American Bank of Knoxville | June 1 | 15 827 |
| 17841 | First American National Bank of Milan, Milan, conversion of First American Bank of Milan | June 1 | 2 752 |
| | TEXAS | | |
| 17770 | BancTEXAS Richardson National Association, Richardson, conversion of BancTEXAS Richardson | May 3 | 5 000 |
| 17769 | BancTEXAS White Rock National Association, Dallas, conversion of BancTEXAS White Rock | May 3 | 3 200 |
| | VIRGINIA | | |
| 17864 | Stonewall Jackson Bank and Trust Company, National Association, Mount Jackson, conversion of Stonewall Jackson Bank and Trust Company | March 31 | 1 010 |
| 17867 | Massanutten Bank and Trust, National Association, Harrisonburg, conversion of Massanutten Bank and Trust | April 1 | 1 246 |

National bank charters issued pursuant to corporate reorganizations, by states, January 1 to June 30, 1983

| Charter number | Title and location of bank | Date of issuance |
|---|---|---|
| | Total 82 charters | |
| | CALIFORNIA | |
| 16330 | SCN Interim National Bank, Escondido | March 1 |
| 16379 | Interim Continental National Bank, Fresno | March 31 |
| 16154 | New Delta National Bank, Manteca | June 27 |
| 17166 | New Pacific National Bank, Newport Beach | April 29 |
| 16636 | Interim Meridian National Bank, Pleasant Hill | March 9 |
| 17114 | Interim San Diego National Bank, San Diego | April 1 |
| | FLORIDA | |
| 7404 | Sun First National Bank of DeFuniak Springs, DeFuniak Springs | June 1 |
| | GEORGIA | |
| 16487 | Chatsworth Interim National Bank, Chatsworth | April 4 |
| 15572 | Interim National Bank of Griffin, Griffin | March 1 |
| 9302 | Interim First National Bank of Thomson, Thomson | May 9 |
| | ILLINOIS | |
| 14505 | Pomar National Bank, Chicago | March 15 |
| 14430 | UNB National Bank of Chicago, Chicago | June 1 |
| 12000 | Coulterville National Bank, Coulterville | March 12 |
| 176 | Republic National Bank of Peoria, Peoria | April 1 |
| 9823 | American Interim National Bank and Trust Company, Rockford | June 27 |
| | INDIANA | |
| 571 | FNC Bank, National Association, Crawfordsville | March 31 |
| 12444 | Vanderburgh County National Bank, Evansville | January 6 |
| 14468 | Gainer Bank, National Association, Gary | January 1 |
| 14398 | FNB National Bank in Huntington, Huntington | January 3 |
| 8929 | Huntingburg National Service Bank, Huntingburg | May 31 |
| 11148 | Sagamore National Bank, Lafayette | January 3 |
| 2612 | Moores Hill National Bank, Lawrenceburg | March 7 |
| 13580 | Logansport National Bank, Logansport | June 1 |
| 2234 | First Merchants National Bank, Muncie | June 14 |
| 17 | RN Bank, National Association, Richmond | January 1 |
| 4800 | Farmco National Bank, Shelbyville | April 15 |
| 47 | Terre Haute Second National Bank, Terre Haute | May 2 |
| | IOWA | |
| 17701 | Lamoni National Bank, Lamoni | March 31 |
| | KANSAS | |
| 4284 | Central of J C, National Association, Junction City | February 10 |
| | LOUISIANA | |
| 14849 | New Lakeside National Bank, Lake Charles | April 15 |
| 13655 | ONB National Bank, Monroe | May 1 |
| 6858 | New State National Bank, New Iberia | January 19 |
| | MAINE | |
| 4128 | The Maine Bank, National Association, Portland | February 19 |
| | MISSISSIPPI | |
| 16079 | Citizens Interim National Bank, Pascagoula | February 1 |
| 13722 | Britton & Koontz First National Interim Bank, Natchez | January 15 |
| | MISSOURI | |
| 17694 | First Community National Bank of Crawford County, Steelville | February 1 |
| 13726 | American Bank in St. Louis, National Association, St. Louis | March 7 |
| 14128 | Grand & Gravois National Bank, St. Louis | February 3 |
| | NEW JERSEY | |
| 13855 | NBSC National Bank, Branchville | April 4 |
| 3866 | Ultra National Bank, Bridgewater | March 7 |
| 17094 | Commerce Interim National Bank, Evesham Township | June 29 |
| [illegible] | Broad Bank at Newark, National Association, Newark | February 1 |
| [illegible] | Valley Bank, National Association, Passaic | May 2 |
| [illegible] | The Union Center Interim National Bank, Union | May 1 |
| | NEW YORK | |
| [illegible] | [illegible] Bank, Oneonta | April 28 |
| | NORTH CAROLINA | |
| [illegible] | [illegible] National Bank, Rocky Mount | March 8 |

*National bank charters issued pursuant to corporate reorganizations, by states, January 1 to June 30, 1983—continued*

| Charter number | Title and location of bank | Date of issuance |
|---|---|---|
| | OHIO | |
| 2302 | Bellevue National Bank, Bellevue | May 1 |
| 3654 | Canfield National Bank, Canfield | March 31 |
| 16545 | FBNA National Bank, Cleveland | May 6 |
| 7557 | The National Bank & Trust Company of Eaton, Ohio Eaton | January 21 |
| 15340 | Bank One of Lima, National Association, Lima | April 2 |
| 56 | First S/W/O, National Association, Monroe | April 27 |
| 2220 | IFC Bank of Waynesville, National Association, Waynesville | June 1 |
| | PENNSYLVANIA | |
| 5444 | F B National Bank, Bath | February 9 |
| 661 | Downington Interim National Bank, Downington | June 30 |
| 9541 | Harleysville Interim National Bank and Trust Company, Harleysville | January 1 |
| 10188 | Interim First National Bank of Herminie, Herminie | May 2 |
| 14098 | Interim National Bank of the Commonwealth, Indiana | April 29 |
| 9600 | FNB National Bank, Jessup | June 23 |
| 13781 | United National Interim Bank in Johnstown, Johnstown | January 5 |
| 680 | Lebanon Valley National Interim Bank, Lebanon | June 24 |
| 2252 | Upper Dauphin Interim National Bank, Millersburg | June 1 |
| 2223 | M.H.L.R. National Bank, Montrose | June 22 |
| 8499 | Interim National Bank of New Holland, New Holland | June 30 |
| 5702 | Interim Keystone National Bank, Punxsutawney | January 1 |
| | TENNESSEE | |
| 3341 | Interim National Bank of Athens, Athens | June 30 |
| 1603 | FNB Interim National Bank, Clarksville | January 1 |
| 10470 | First Phantom National Bank, Pikeville | January 10 |
| | TEXAS | |
| 16999 | Westcreek National Bank, Fort Worth | January 27 |
| 16279 | Plaza Bank, National Association, Harlingen | January 7 |
| 16975 | New Northfield National Bank, Houston | May 2 |
| 4101 | Marshall Bank, National Association, Marshall | February 18 |
| 16770 | RepublicBank Midland, National Association, Midland | April 1 |
| 14383 | First Bank of Commerce, National Association, Mission | April 30 |
| 15856 | PNB National Bank, Richardson | May 1 |
| 16404 | Texas American Bank/Temple, National Association, Temple | June 28 |
| | VERMONT | |
| 1430 | Ethan Allen National Bank, Brattleboro | March 1 |
| | VIRGINIA | |
| 1582 | First National Bank of Fredericksburg, Fredericksburg | January 1 |
| | WEST VIRGINIA | |
| 11109 | FTNB, National Association, Bluefield | January 1 |
| 13509 | Commerce Bank, National Association, Charleston | May 2 |
| 13811 | First National Interim Bank in Fairmont, Fairmont | April 6 |
| | WISCONSIN | |
| 11060 | M & I First National Bank, West Bend | January 31 |

## Mergers,* January 1 to June 30, 1983

| | Transactions involving two or more operating banks | Others pursuant to corporate reorganization | Total |
|---|---|---|---|
| Applications received | | | |
| Mergers | 58 | 82 | 140 |
| Consolidations | 5 | 18 | 23 |
| Purchases and assumptions | 25 | 6 | 31 |
| Total | 88 | 106 | 194 |
| Approvals issued | | | |
| Mergers | 52 | 72 | 124 |
| Consolidations | 4 | 8 | 12 |
| Purchases and assumptions | 19 | 5 | 24 |
| Total | 75 | 85 | 160 |
| Denials issued | | | |
| Mergers | 3 | 0 | 3 |
| Consolidations | 0 | 0 | 0 |
| Purchases and assumptions | 0 | 0 | 0 |
| Total | 3 | 0 | 3 |
| Abandoned | | | |
| Mergers | 3 | 4 | 7 |
| Consolidations | 1 | 0 | 1 |
| Purchases and assumptions | 1 | 0 | 1 |
| Total | 5 | 4 | 9 |
| Consummated | | | |
| Mergers | 38 | 74 | 112 |
| Consolidations | 2 | 8 | 10 |
| Purchases and assumptions | 16 | 5 | 21 |
| Total | 56 | 87 | 143 |

* Includes mergers, consolidations, and purchases and assumptions when the resulting bank is a national bank

*Mergers of national banks, or national and state banks, by states, January 1 to June 30, 1983*

(Dollar amounts in thousands)

| *Effective date* | *Merging banks* / *Resulting bank* | *Total assets* |
|---|---|---|
| | ALABAMA | |
| | The First National Bank of Birmingham, Birmingham (3185) | $2,251,021 |
| | Peoples Bank of Tuscaloosa, Tuscaloosa | 29,914 |
| April 15 | AmSouth Bank, National Association, Birmingham (3185) | 2,280,934 |
| | The First National Bank of Birmingham, Birmingham (3185) | 2,166,356 |
| | The Bank of Sulligent, Sulligent | 28,987 |
| April 22 | AmSouth Bank, National Association, Birmingham (3185) | 2,195,343 |
| | The First National Bank of Birmingham, Birmingham (3185) | 2,123,544 |
| | Bank of Gadsden, Gadsden | 15,732 |
| May 13 | AmSouth Bank, National Association, Birmingham (3185) | 2,139,276 |
| | The First National Bank of Birmingham, Birmingham (3185) | 2,189,404 |
| | The Bank of Arab, Arab | 32,491 |
| May 27 | AmSouth Bank, National Association, Birmingham (3185) | 2,221,895 |
| | The First National Bank of Birmingham, Birmingham (3185) | 2,208,604 |
| | Fort Payne Bank, Fort Payne | 39,320 |
| June 10 | AmSouth Bank, National Association, Birmingham (3185) | 2,247,924 |
| | The First National Bank of Clanton, Clanton (11515) | 33,384 |
| | Colonial Bank, National Association, Montgomery (16247) | 33,656 |
| June 5 | Colonial Bank, National Association, Montgomery (16247) | 65,121 |
| | The First National Bank of Birmingham, Birmingham (3185) | 2,135,046 |
| | AmSouth Bank of Houston County, Dothan | 35,270 |
| June 24 | AmSouth Bank, National Association (3185) | 2,170,316* |
| | CONNECTICUT | |
| | The Connecticut Bank and Trust Company, Hartford | 3,912,883 |
| | The State National Bank of Connecticut, Bridgeport (4) | 926,551 |
| January 1 | The Connecticut Bank and Trust Company, National Association, Hartford (4) | 4,839,434* |
| | FLORIDA | |
| | The First Marion Bank, Ocala | 28,353 |
| | Southeast Bank, National Association, Miami (15638) | 7,282,100 |
| January 11 | Southeast Bank, National Association, Miami (15638) | 7,310,453 |
| | Nassau County State Bank, Callahan | 15,245 |
| | Atlantic National Bank of Florida, Jacksonville (6888) | 2,651,020 |
| March 1 | Atlantic National Bank of Florida, Jacksonville (6888) | 2,663,796 |
| | Ellis First Park Bank, Pinellas Park | 39,465 |
| | Ellis National Bank of Pinellas County, St. Petersburg (15277) | 71,671 |
| March 11 | Ellis National Bank of Pinellas County, St. Petersburg (15277) | 110,434 |
| | Security Trust Company of Palm Beach, Palm Beach | 1,781 |
| | Northern Trust Bank of Florida/Palm Beach National Association, Palm Beach (17720) | 1,034 |
| April 4 | Northern Trust Bank of Florida/Palm Beach National Association, Palm Beach (17720) | 2,815 |
| | Peoples Bank of St. Augustine, St. Augustine | 12,988 |
| | Florida National Bank, Jacksonville (8321) | 1,001,932 |
| April 8 | Florida National Bank, Jacksonville (8321) | 1,020,731 |
| | Security Trust Company of Naples, Naples | 2,218 |
| | Northern Trust Bank of Florida/Naples National Association, Naples (17723) | 829 |
| April 11 | Northern Trust Bank of Florida/Naples National Association, Naples (17723) | 3,047 |
| | Ellis First National Bank of Flagler County, Bunnell (16728) | 17,681 |
| | Ellis National Bank of Volusia County, DeBary (15348) | 58,349 |
| May 13 | Ellis Bank of Northeast Florida, National Association, DeBary (15348) | 76,030 |
| | GEORGIA | |
| | The Farmers Bank, Locust Grove | 10,397 |
| | Trust Company Bank of Henry County, National Association, McDonough (7969) | 49,238 |
| January 1 | Trust Company Bank of Henry County, National Association, McDonough (7969) | 59,635 |
| | Citizens State Bank, Warner Robins | 4,013,964 |
| | The First National Bank of Atlanta, Atlanta (1559) | 67,840 |
| March 5 | The First National Bank of Atlanta, Atlanta (1559) | 4,075,334 |
| | The Gainesville National Bank, Gainesville (7616) | 111,127 |
| | The First National Bank of Atlanta, Atlanta (1559) | 4,075,054 |
| March 31 | The First National Bank of Atlanta, Atlanta (1559) | 4,179,665 |
| | The Citizens and Southern Bank of Bartow County, Cartersville | 26,374 |
| | The Citizens and Southern National Bank, Savannah (13068) | 5,515,419 |
| May 31 | The Citizens and Southern National Bank, Savannah (13068) | 5,541,793* |
| | INDIANA | |
| | Peoples State Bank, Cambridge City | 31,651 |
| | The First National Bank of Richmond, Richmond (17) | 119,532 |
| | RN Bank, National Association, Richmond (17) | [illegible] |
| January 1 | The First National Bank of Richmond, Richmond (17) | 151,303* |
| | The Citizens National Bank of Knightstown, Knightstown (9152) | [illegible] |
| | First National Bank in New Castle, New Castle (13816) | [illegible] |
| March 1 | Security National Bank, New Castle (13816) | [illegible] |

*Mergers of national banks or national and state banks, by states, January 1 to June 30, 1983—continued*

(Dollar amounts in thousands)

| Date of [illegible] | Merging banks / Resulting bank | Total assets |
|---|---|---|
| | IOWA | |
| | Northwest Brenton National Bank, Des Moines (14868) | $46,436 |
| | Brenton National Bank of Des Moines, Des Moines (14746) | 97,064 |
| January 1 | Brenton National Bank of Des Moines, Des Moines (14746) | 143,500 |
| | State Bank of Lamon, Lamon | 15,053 |
| | Lamon National Bank, Lamon (17701) | 1,466 |
| March 31 | Lamon National Bank, Lamon (17701) | 16,519 |
| | KENTUCKY | |
| | Bank of Loretto, Loretto | 9,660 |
| | The Marion National Bank of Lebanon, Lebanon (2150) | 32,421 |
| April 29 | Marion National Bank, Lebanon (2150) | 42,081 |
| | LOUISIANA | |
| | The Bank of New Orleans and Trust Company, New Orleans | 637,493 |
| | First National Bank of Commerce, New Orleans (13689) | 1,436,452 |
| May 22 | First National Bank of Commerce, New Orleans (13689) | 2,073,945 |
| | MAINE | |
| | Washburn Trust Company, Washburn | 34,742 |
| | Houlton Trust Company, Houlton | 27,067 |
| | Firstbank, N.A., Farmington (4459) | 27,058 |
| January 1 | Merrill Bank, National Association, Farmington (4459) | 88,867 |
| | MASSACHUSETTS | |
| | BayBank Merchants, N.A., New Bedford (799) | 130,667 |
| | BayBank United, N.A., Taunton (5944) | 104,610 |
| March 19 | BayBank, National Association, Taunton (5944) | 235,278 |
| | Old Colony Bank of Franklin County, National Association, Shelburne Falls (1144) | 39,213 |
| | Old Colony Bank of Hampden County, N.A., Holyoke (1939) | 218,068 |
| May 13 | Bank of Boston, Western Massachusetts, National Association, Holyoke (1939) | 257,276 |
| | Lowell Bank and Trust Company, Lowell | 53,843 |
| | Security National Bank, Lynn (7452) | 141,289 |
| June 1 | Security National Bank, Lynn (7452) | 195,132* |
| | Old Colony Bank and Trust Company of Essex County, Marblehead | 39,919 |
| | Old Colony Bank of Northern Essex County, National Association, Haverhill (484) | 83,144 |
| June 3 | Bank of Boston, Essex, National Association, Haverhill (484) | 123,062 |
| | MISSOURI | |
| | Community Bank, Steelville | 29,670 |
| | First Community National Bank of Crawford County, Steelville (17694) | 120 |
| February 1 | First Community National Bank of Crawford County, Steelville (17694) | 29,790 |
| | Bank of Tuscumbia, Tuscumbia | 13,564 |
| | Lake National Bank, Lake Ozark (17700) | 202 |
| February 15 | Lake National Bank, Lake Ozark (17700) | 13,766 |
| | Commerce, Manchester Bank, National Association, St. Louis (16944) | 193,256 |
| | Commerce Bank of St. Louis, National Association, St. Louis (16048) | 14,819 |
| January 1 | Commerce Bank of St. Louis, National Association, St. Louis (16944) | 208,075† |
| | NEW HAMPSHIRE | |
| | Indian Head National Bank of Laconia, Laconia (4740) | 24,022 |
| | Indian Head National Bank, Nashua (15563) | 314,339 |
| May 1 | Indian Head National Bank, Nashua (15563) | 338,361 |
| | NEW JERSEY | |
| | Midlantic National Bank Atlantic, Atlantic City (15781) | 115,426 |
| | Midlantic National Bank South, Haddonfield (14457) | 463,838 |
| March 1 | Midlantic National Bank South, Haddonfield (14457) | 579,264† |
| | NEW YORK | |
| | The National Bank of Pawling, Pawling (1269) | 20,606 |
| | Key Bank of Southeastern New York National Association, Chester (1349) | 256,615 |
| [illegible] | Key Bank of Southeastern New York National Association, Chester (1349) | 277,221 |
| | OHIO | |
| | Heritage Bank, Toronto | 296,217 |
| | Bank One of Youngstown, National Association, Youngstown (13586) | 465,002 |
| April 1 | Bank One of Eastern Ohio, National Association, Youngstown (13586) | 734,219 |
| | The Bank of Elmore Company, Elmore | [illegible] |
| | [illegible] National Bank and Trust Company, Northwood (15416) | 18[illegible],638 |
| May [illegible] | [illegible] National Bank and Trust Company, Northwood (15415) | 209,197 |
| | [illegible] N.A., Fairborn (9675) | 60,851 |
| | [illegible] Bank, Yellow Springs | 11,[illegible] |
| [illegible] | [illegible] Fairborn (9675) | 103,956 |

*Mergers of national banks, or national and state banks, by states, January 1 to June 30, 1983—continued*
(Dollar amounts in thousands)

| Effective date | Merging banks<br>Resulting bank | Total assets |
|---|---|---|
| | SOUTH DAKOTA | |
| | First Potter County Bank, Gettysburg | $34 949 |
| | The First National Bank of Clark, Clark (6409) | 19 908 |
| | First National Bank in Lemmon, Lemmon (12857) | 48 352 |
| | The First National Bank of Miller, Miller (6789) | 44 238 |
| | First Bank (N A ), Aberdeen (3326) | 162 573 |
| | First Bank of South Dakota, (National Association), Sioux Falls (12881) | 684 474 |
| May 1C | First Bank of South Dakota, (National Association), Sioux Falls (12881) | 994 514* |
| | TEXAS | |
| | Allied Bank Beaumont, Beaumont | 42 477 |
| | Citizens National Bank of Beaumont, Beaumont (15269) | 37 662 |
| April 30 | Allied Bank Beaumont, National Association, Beaumont (15269) | 80 139 |
| | VIRGINIA | |
| | Central Fidelity Bank, Northern Virginia, Bailey's Crossroads | 172 894 |
| | Central Fidelity Bank, National Association, Richmond (10080) | 859 009 |
| January 21 | Central Fidelity Bank, National Association, Richmond (10080) | 1 031 903 |
| | The First National Exchange Bank of Montgomery County, Blacksburg (16246) | 51 497 |
| | The First National Exchange Bank of Virginia, Roanoke (2737) | 1 707,894 |
| February 17 | First National Exchange Bank, Roanoke (2737) | 1 759 391* |
| | WEST VIRGINIA | |
| | National Bankers Trust, Bradley (17009) | 2,746 |
| | Raleigh County National Bank, Beckley (16002) | 169,737 |
| February 7 | Raleigh County National Bank, Beckley (16002) | 172,483 |
| | Mountaineer National Bank, Morgantown (16687) | 22,605 |
| | Community Bank and Trust, National Association, Fairmont (15760) | 109 156 |
| April 1 | Community Bank and Trust, National Association, Fairmont (15760) | 132,887 |
| | Citizens National Bank of Point Pleasant, Point Pleasant (13231) | 78 095 |
| | The First Huntington National Bank, Huntington (3106) | 243 533 |
| May 21 | The First Huntington National Bank, Huntington (3106) | 321 628* |
| | WISCONSIN | |
| | First Wisconsin National Bank of West Towne, Madison (15831) | 17,922 |
| | First Wisconsin National Bank of Madison, Madison (144) | 400,323 |
| January 1 | First Wisconsin National Bank of Madison, Madison (144) | 418 245 |
| | Cudahy Marine Bank, Cudahy | 75 020 |
| | South Milwaukee Marine Bank, South Milwaukee | 43 977 |
| | Oak Creek Marine National Bank, Oak Creek (14957) | 19 510 |
| | Marine Bank, National Association, Milwaukee (5458) | 1 024 965 |
| June 1 | Marine Bank, National Association, Milwaukee (5458) | 1,163,471 |

* Actual asset information for these mergers was not available at press time. The figures for total assets were statistically estimated
C Consolidation

## Mergers* consummated pursuant to corporate reorganizations, by states, January 1 to June 30, 1983

(Dollar amounts in thousands)

| Effective date | Operating bank<br>New bank<br>Resulting bank | Total assets |
|---|---|---|
| | CALIFORNIA | |
| | San Diego National Bank, Encinitas | |
| | SDN Interim National Bank, Encinitas | |
| March 11 | San Diego National Bank, Encinitas | |
| | Meridian National Bank, Pleasant Hill | $ 33,176 |
| | Interim Meridian National Bank, Pleasant Hill | |
| March 9 | Meridian National Bank, Pleasant Hill | |
| | Continental National Bank, Fresno | 47,903 |
| | Interim Continental National Bank, Fresno | |
| March 31 | Continental National Bank, Fresno | |
| | San Diego National Bank, San Diego | 23,678 |
| | Interim San Diego National Bank, San Diego | |
| April 1 | San Diego National Bank, San Diego | |
| | Pacific National Bank, Newport Beach | 50,484† |
| | New Pacific National Bank, Newport Beach | |
| April 29 | Pacific National Bank, Newport Beach | |
| | Delta National Bank, Manteca | 26,444† |
| | New Delta National Bank, Manteca | |
| June 27 | Delta National Bank, Manteca | |
| | FLORIDA | 32,605† |
| | The First National Bank of DeFuniak Springs, DeFuniak Springs | |
| | Sun First National Bank of DeFuniak Springs, DeFuniak Springs | |
| June 1 | Sun First National Bank of DeFuniak Springs, DeFuniak Springs | |
| | GEORGIA | 29,744† |
| | First National Bank of Griffin, Griffin | |
| | Interim National Bank of Griffin, Griffin | |
| March 1 | First National Bank of Griffin, Griffin | |
| | The First National Bank of Chatsworth, Chatsworth | 56,224 |
| | Chatsworth Interim National Bank, Chatsworth | |
| April 5 | The First National Bank of Chatsworth, Chatsworth | |
| | The First National Bank of Thomson, Thomson | 19,652 |
| | Interim First National Bank of Thomson, Thomson | |
| May 10 | The First National Bank of Thomson, Thomson | |
| | ILLINOIS | 50,245 |
| | The First National Bank of Coulterville, Coulterville | |
| | Coulterville National Bank, Coulterville | |
| March 12 | The First National Bank of Coulterville, Coulterville | |
| | Marquette National Bank, Chicago | 7,376 |
| | Pomar National Bank, Chicago | |
| March 15 | Marquette National Bank, Chicago | |
| | The First National Bank of Peoria, Peoria | 252,962 |
| | Republic National Bank of Peoria, Peoria | |
| April 1 | The First National Bank of Peoria, Peoria | |
| | Uptown National Bank of Chicago, Chicago | 178,530 |
| | UNB National Bank of Chicago, Chicago | |
| June 1 | Uptown National Bank of Chicago, Chicago | |
| | American National Bank and Trust Co., Rockford | 131,135 |
| | American Interim National Bank and Trust Co., Rockford | |
| June 27C | American National Bank and Trust Co., Rockford | |
| | INDIANA | 332,597 |
| | Gary National Bank, Gary | |
| | Gainer Bank, National Association, Gary | |
| January 1 | Gainer Bank, National Association, Gary | |
| | The First National Bank in Huntington, Huntington | 609,030 |
| | FNB National Bank in Huntington, Huntington | |
| January 3 | The First National Bank in Huntington, Huntington | |
| | Purdue National Bank of Lafayette, Lafayette | 114,998 |
| | Sagamore National Bank, Lafayette | |
| January [illegible] | Purdue National Bank of Lafayette, Lafayette | |
| | [illegible] National Bank in Evansville, Evansville | 270,551 |
| | Vanderburgh County National Bank, Evansville | |
| January [illegible] | [illegible] National Bank in Evansville, Evansville | |
| | The Peoples National Bank of Lawrenceburg, Lawrenceburg | 615,368 |
| March [illegible] | [illegible] National Bank, Lawrenceburg | |
| | [illegible] National Bank of Lawrenceburg, Lawrenceburg | |
| | [illegible] National Bank and Trust Company of Crawfordsville, Crawfordsville | 43,841 |
| March [illegible] | [illegible] National Association, Crawfordsville | |
| | [illegible] National Bank and Trust Company of Crawfordsville, Crawfordsville | |
| | [illegible] National Bank of Shelbyville, Shelbyville | 107,876† |
| | [illegible], Shelbyville | |
| | [illegible] Shelbyville | 99,143 |

*Mergers* consummated pursuant to corporate reorganizations, by states, January 1 to June 30, 1983—continued*
(Dollar amounts in thousands)

| *Effective date* | *Operating bank New bank Resulting bank* | *Total assets* |
|---|---|---|
| | Terre Haute First National Bank, Terre Haute<br>Terre Haute Second National Bank, Terre Haute | |
| May 2 | Terre Haute First National Bank, Terre Haute | $444 065 |
| | The First National Bank of Huntingburg, Huntingburg<br>Huntingburg National Service Bank, Huntingburg | |
| May 31 | The First National Bank of Huntingburg, Huntingburg | 57 415 |
| | The First National Bank of Logansport, Logansport<br>Logansport National Bank, Logansport | |
| June 1 | The First National Bank of Logansport, Logansport | 155 091 |
| | The Merchants National Bank of Muncie, Muncie<br>First Merchants National Bank, Muncie | |
| June 14 | The Merchants National Bank of Muncie, Muncie | 314 468 |
| | KANSAS | |
| | The Central National Bank of Junction City, Junction City<br>Central of J.C., National Association, Junction City | |
| February 10 | The Central National Bank of Junction City, Junction City | 58 985 |
| | LOUISIANA | |
| | The State National Bank of New Iberia, New Iberia<br>New State National Bank, New Iberia | |
| January 19C | The State National Bank of New Iberia, New Iberia | 90 673 |
| | Lakeside National Bank of Lake Charles, Lake Charles<br>New Lakeside National Bank, Lake Charles | |
| April 15C | Lakeside National Bank of Lake Charles, Lake Charles | 136,308 |
| | The Ouachita National Bank in Monroe, Monroe<br>ONB National Bank, Monroe | |
| May 1 | The Ouachita National Bank in Monroe, Monroe | 504,876 |
| | MAINE | |
| | Maine National Bank, Portland<br>The Maine Bank, National Association, Portland | |
| February 18 | Maine National Bank, Portland | 539,489 |
| | MISSISSIPPI | |
| | Britton & Koontz First National Bank, Natchez<br>Britton & Koontz First National Interim Bank, Natchez | |
| January 15 | Britton & Koontz First National Bank, Natchez | 75,573 |
| | Citizens National Bank, Pascagoula<br>Citizens Interim National Bank, Pascagoula | |
| February 1 | Citizens National Bank, Pascagoula | 30,541 |
| | MISSOURI | |
| | South Side National Bank in St Louis, St Louis<br>Grand & Gravois National Bank, St Louis | |
| January 3 | South Side National Bank in St. Louis, St Louis | 158,316† |
| | American National Bank in St. Louis, St. Louis<br>American Bank in St Louis, National Association, St Louis | |
| March 7 | American National Bank in St Louis, St Louis | 84 707 |
| | NEW JERSEY | |
| | Broad National Bank, Newark<br>Broad Bank at Newark, National Association, Newark | |
| February 1 | Broad National Bank, Newark | 149 641 |
| | First National Bank of Central Jersey, Bridgewater<br>Ultra National Bank, Bridgewater | |
| March 7C | First National Bank of Central Jersey, Bridgewater | 482 783 |
| | The National Bank of Sussex County, Branchville<br>NBSC National Bank, Branchville | |
| April 1C | The National Bank of Sussex County, Branchville | 85 531 |
| | The Union Center National Bank, Union<br>The Union Center Interim National Bank, Union | |
| May 1 | The Union Center National Bank, Union | 93 089 |
| | Valley National Bank, Passaic<br>Valley Bank, National Association, Passaic | |
| May 2 | Valley National Bank, Passaic | 734 137 |
| | Commerce Bank, National Association Evesham Township (Marlton)<br>Commerce Interim National Bank Evesham Township (Marlton) | |
| June 29 | Commerce Bank, National Association, Evesham Township (Marlton) | 104 148 |
| | NEW YORK | |
| | The Bath National Bank, Bath<br>BNB, National Association, Bath | |
| March 11 | The Bath National Bank, Bath | [illegible] |
| | Wilber National Bank, Oneonta<br>W B National Bank, Oneonta | |
| April 28C | Wilber National Bank, Oneonta | [illegible] |

*Mergers* consummated pursuant to corporate reorganizations, by states, January 1 to June 30, 1983—continued*

(Dollar amounts in thousands)

| Effective date | Operating bank<br>New bank<br>Resulting bank | Total assets |
|---|---|---|
| | NORTH CAROLINA | |
| March 3 | The Planters National Bank and Trust Company Rocky Mount<br>Interim Planters National Bank Rocky Mount<br>The Planters National Bank and Trust Company Rocky Mount | $457 421 |
| | OHIO | |
| January 21 | Eaton National Bank & Trust Co Eaton<br>The National Bank & Trust Company of Eaton Ohio Eaton<br>Eaton National Bank & Trust Co Eaton | 49,167 |
| March 31 | The Farmers National Bank of Canfield Canfield<br>Canfield National Bank, Canfield<br>The Farmers National Bank of Canfield Canfield | 120 637 |
| April 2 | Tower National Bank of Lima Lima<br>Bank One of Lima National Association Lima<br>Bank One of Lima National Association Lima | 81,261 |
| April 27 | First National Bank of Southwestern Ohio Monroe<br>First S/W/O National Association Monroe<br>First National Bank of Southwestern Ohio Monroe | 455,250 |
| May 1 | The First National Bank of Bellevue Bellevue<br>Bellevue National Bank Bellevue<br>The First National Bank of Bellevue Bellevue | 43,511 |
| May 6 | First Bank National Association, Cleveland<br>FBNA National Bank Cleveland<br>First Bank National Association, Cleveland | 58 276 |
| June 1 | The Waynesville National Bank Waynesville<br>IFC Bank of Waynesville, National Association Waynesville<br>The Waynesville National Bank Waynesville | 35,882 |
| | PENNSYLVANIA | |
| January 1 | The Harleysville National Bank and Trust Company Harleysville<br>Harleysville Interim National Bank and Trust Company Harleysville<br>The Harleysville National Bank and Trust Company Harleysville | 86,062 |
| January 1 | Keystone National Bank, Punxsutawney<br>Interim Keystone National Bank, Punxsutawney<br>Keystone National Bank, Punxsutawney | 185,108 |
| January 5 | United States National Bank in Johnstown Johnstown<br>United National Interim Bank, Johnstown<br>United States National Bank in Johnstown, Johnstown | 488,255 |
| February 10C | First National Bank of Bath, Bath<br>FB National Bank, Bath<br>First National Bank of Bath Bath | 57,389 |
| April 29 | National Bank of the Commonwealth, Indiana<br>Interim National Bank of the Commonwealth, Indiana<br>National Bank of the Commonwealth Indiana | 266,581 |
| May 2 | The First National Bank of Herminie Herminie<br>Interim First National Bank of Herminie, Herminie<br>The First National Bank of Herminie Herminie | 73,731 |
| June 2 | Upper Dauphin National Bank Millersburg<br>Upper Dauphin Interim National Bank Millersburg<br>Upper Dauphin National Bank, Millersburg | 66,030 |
| June 22 | County National Bank of Montrose Montrose<br>M H L R National Bank Montrose<br>County National Bank of Montrose Montrose | 106 289 |
| June 23 | The First National Bank of Jessup Jessup<br>FNB National Bank Jessup<br>The First National Bank of Jessup Jessup | 20 799 |
| June 24 | Lebanon Valley National Bank Lebanon<br>Lebanon Valley National Interim Bank Lebanon<br>Lebanon Valley National Bank Lebanon | 239 171 |
| | TENNESSEE | |
| January 1 | The First National Bank of Clarksville Clarksville<br>FNB Interim National Bank Clarksville<br>The First National Bank of Clarksville Clarksville | 140 903 |
| January 1 | The First National Bank of Pikeville Pikeville<br>First Phantom National Bank Pikeville<br>The First National Bank of Pikeville Pikeville | 21 897 |
| [illegible] | [illegible] Bank and Trust Company Athens Tennessee Athens<br>Interim National Bank of Athens Athens<br>The First National Bank and Trust Company Athens Tennessee Athens | 65 937 |

*Mergers* consummated pursuant to corporate reorganizations, by states, January 1 to June 30, 1983—continued*

(Dollar amounts in thousands)

| *Effective date* | *Operating bank*<br>*New bank*<br>*Resulting bank* | *Total assets* |
|---|---|---|
| | TEXAS | |
| January 7 | Plaza National Bank, Harlingen<br>Plaza Bank, National Association Harlingen<br>Plaza National Bank, Harlingen | $ 36 474 |
| January 27 | Alta Mesa National Bank, Fort Worth<br>Westcreek National Bank, Fort Worth<br>Alta Mesa National Bank, Fort Worth | 12 909 |
| February 18 | The Marshall National Bank, Marshall<br>Marshall Bank, National Association, Marshall<br>The Marshall National Bank, Marshall | 87,139 |
| April 1 | Texas National Bank of Midland, Midland<br>RepublicBank Midland, National Association, Midland<br>RepublicBank Midland, National Association, Midland | 42,715 |
| April 30 | First National Bank of Mission, Mission<br>First Bank of Commerce National Association, Mission<br>First National Bank of Mission, Mission | 72 235 |
| May 1 | Promenade National Bank, Richardson<br>PNB National Bank, Richardson<br>Promenade National Bank, Richardson | 78,545 |
| May 2 | Northfield National Bank, Houston<br>New Northfield National Bank, Houston<br>Northfield National Bank, Houston | 20,159 |
| June 28 | Citizens National Bank of Temple, Temple<br>Texas American Bank/Temple, National Association, Temple<br>Texas American Bank/Temple, National Association, Temple | 35,769 |
| | VERMONT | |
| March 1 | Vermont National Bank, Brattleboro<br>Ethan Allen National Bank, Brattleboro<br>Vermont National Bank, Brattleboro | 325,238 |
| | VIRGINIA | |
| January 1 | The National Bank of Fredericksburg, Fredericksburg<br>First National Bank of Fredericksburg, Fredericksburg<br>The National Bank of Fredericksburg, Fredericksburg | 94,661 |
| | WEST VIRGINIA | |
| January 1 | The Flat Top National Bank of Bluefield, Bluefield<br>FTNB, National Association, Bluefield<br>The Flat Top National Bank of Bluefield, Bluefield | 141 621 |
| April 6 | First National Bank in Fairmont, Fairmont<br>First National Interim Bank in Fairmont, Fairmont<br>First National Bank in Fairmont, Fairmont | 125,745† |
| May 2 | The National Bank of Commerce of Charleston, Charleston<br>Commerce Bank, National Association, Charleston<br>The National Bank of Commerce of Charleston, Charleston | 223 951 |
| | WISCONSIN | |
| January 31 | The First National Bank of West Bend, West Bend<br>M&I First National Bank, West Bend<br>M&I First National Bank, West Bend | 94,096 |

* Includes consolidations effected pursuant to corporate reorganizations Does not include transactions involving more than a single operating bank. Those transactions may be found on p 179

† Actual asset information for these transactions was not available at press time The figures were statistically estimated

C Consolidation

## National banks merged or consolidated with state banks, by states, January 1 to June 30, 1983

(Dollar amounts in thousands)

| Title and location of bank | Effective date | Total assets of national banks |
|---|---|---|
| Total 5 national banks | | $211,913 |
| DELAWARE | | |
| The First National Bank of Frankford, Frankford (8918), merged into Sussex Trust Company, Laurel, under title "Sussex Trust Company" | March 31 | 17,296 |
| FLORIDA | | |
| United National Bank, Cocoa Beach (15588), merged into First American Bank and Trust, North Palm Beach, under title "First American Bank and Trust" | March 21 | 42,758 |
| NEW HAMPSHIRE | | |
| BankEast National Association, Claremont (13829), merged into BankEast, Manchester, under title "BankEast" | January 1 | 37,767 |
| BankEast National Bank, Rochester (13861), merged into BankEast Savings Bank and Trust, Rochester, under title "BankEast Savings Bank and Trust" | January 3 | 25,452 |
| OHIO | | |
| Bank One of Kenton, N.A., Kenton (3505), merged into Bank One of Marion, under title "Bank One of Marion" | February 1 | 31,512 |
| PENNSYLVANIA | | |
| The Ridgway National Bank, Ridgway (5945), merged into Marine Bank, Warren, under title "Marine Bank" | April 29 | 35,875 |
| The First National Bank of Fairfield, Fairfield (9256), merged into Farmers Bank and Trust Company of Hanover, Hanover, under title "Farmers Bank and Trust Company of Hanover" | May 19 | 13,538 |
| The Farmers National Bank of Rome, Rome (10246) and The State Bank of Avis, Avis, merged into Northern Central Bank, Williamsport, under title "Northern Central Bank" | June 27 | 7,715 |

## Purchases of state banks by national banks, by states, January 1 to June 30, 1983

(Dollar amounts in thousands)

| Title and location of bank | Effective date | Total assets of state banks |
|---|---|---|
| Total 9 banks | | $556,830 |
| ARKANSAS | | |
| First National Bank of Eastern Arkansas, Forrest City (13637), purchased Rice Growers Bank, Wheatley | April 19 | 15,813 |
| CALIFORNIA | | |
| Trans American National Bank, Monterey Park (15506), purchased Bank of San Marino, San Marino | April 8 | 12,997 |
| IOWA | | |
| The First National Bank of Akron, Akron (7322), purchased Akron Savings Bank, Akron | June 17 | 9,335 |
| SOUTH CAROLINA | | |
| First National Bank of South Carolina, Columbia (13720), purchased The Bank of Lancaster, Lancaster | | 64,396 |
| and Central Carolina Bank, Lancaster | January 1 | 13,518 |
| The Citizens and Southern National Bank of South Carolina, Charleston (14425), purchased Bank of Fort Mill, Fort Mill | June 9 | 19,891 |
| TENNESSEE | | |
| Union Planters National Bank of Memphis, Memphis (13349), purchased United Southern Bank of Nashville, Nashville | May 27 | 144,171 |
| Union Planters National Bank of Memphis, Memphis (13349), purchased United American Bank in Hamilton County, Chattanooga | May 27 | 133,834 |
| Third National Bank in Anderson County, Lake City (17778), purchased City and County Bank of Anderson County, Lake City | May 27 | 142,875 |

*National banks converted to state banks, by states, January 1 to June 30, 1983*
(Dollar amounts in thousands)

| Charter number | Title and location of bank | Effective date | Total assets |
|---|---|---|---|
| | Total 5 banks | | $334 907 |
| | IOWA | | |
| 14954 | Ankeny National Bank, Ankeny, converted to Hawkeye-Ankeny Bank and Trust, Ankeny | February 25 | 26 628 |
| | LOUISIANA | | |
| 4524 | The Peoples National Bank of Iberia Parish, New Iberia, converted to The Peoples Bank and Trust of Iberia Parish, New Iberia | February 10 | 141 708 |
| | MICHIGAN | | |
| 1587 | The First National Bank of Monroe, Monroe, converted to Security Bank of Monroe, Monroe | March 31 | 161 608 |
| | NEW YORK | | |
| 17708 | J & W Seligman Trust Company, National Association, New York, converted to J & W Seligman Trust Company, New York | June 9 | 750 |
| | OKLAHOMA | | |
| 17428 | Community National Bank, Seiling, converted to Community Bank, Seiling | April 20 | 4 213 |

*National banks reported in liquidation, by states, January 1 to June 30, 1983*
(Dollar amounts in thousands)

| Title and location of bank | Effective date | Total assets of liquidated bank |
|---|---|---|
| Total: 5 national banks | | $2,900,099 |
| CALIFORNIA | | |
| Newport Harbour National Bank (15506), Newport Beach, absorbed by Trans American National Bank (16838), Monterey Park | March 11 | 47,926 |
| FLORIDA | | |
| NCNB National Bank of Florida, (15421), Boca Raton, absorbed by NCNB National Bank of Florida, (17775), Boca Raton | May 2 | 992,184 |
| NCNB National Bank of Florida, (17534), Tampa, absorbed by NCNB National Bank of Florida, (17774), Tampa | May 2 | 1,678,699 |
| ILLINOIS | | |
| First National Bank of Oak Lawn (15476), Oak Lawn, absorbed by Oak Lawn National Bank (17747), Oak Lawn | April 29 | 130,265 |
| OHIO | | |
| The Farmers and Traders National Bank of Hillsboro, (9243), Hillsboro, absorbed by FTH National Bank (17646), Hillsboro | March 1 | 51,025 |

## Consolidated assets and liabilities of national banks with foreign operations, March 31, 1983

(Dollar amounts in millions)

| | Foreign and domestic offices | Domestic offices |
|---|---|---|
| Cash and due from depository institutions | $159 105 | $ [illegible] 224 |
| U.S. Treasury securities | 28 610 | [illegible] 437 |
| Obligations of other U.S. government agencies and corporations | 12 124 | 1[illegible] 102 |
| Obligations of states and political subdivisions in the United States | 39 242 | 38 64[illegible] |
| Other bonds, notes and debentures | 6 219 | 1 355 |
| Federal Reserve stock and corporate stock | 1 033 | 914 |
| Trading account securities | 9 545 | 8 484 |
| Federal funds sold and securities purchased under agreements to resell | 26 048 | 25 814 |
| Loans, total (excluding unearned income) | 525 122 | 386 316 |
| Less: Allowance for possible loan losses | 5 928 | 5 666 |
| Loans, net | 519 194 | 380 650 |
| Lease financing receivables | 9 723 | 7 917 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 12 005 | 10 598 |
| Real estate owned other than bank premises | 1 676 | 1 593 |
| Investments in unconsolidated subsidiaries and associated companies | 1,499 | 491 |
| Customers' liability on acceptances outstanding | 40 589 | 30 114 |
| Other assets | 21,432 | 49 015 |
| *Total assets* | 888 044 | 668 349 |
| Demand deposits of individuals, partnerships and corporations | 97 295 | 97 295 |
| Time and savings deposits of individuals, partnerships and corporations | 286 294 | 286 294 |
| Deposits of U.S. government | 1 213 | 1 213 |
| Deposits of states and political subdivisions in the United States | 19 411 | 19 411 |
| Deposits of foreign governments and official institutions | 3 455 | 3 455 |
| Deposits of commercial banks | 32,198 | 32 198 |
| Certified and officers' checks | 4 978 | 4 978 |
| Total deposits in domestic offices | 444 844 | 444 844 |
| Total demand deposits | 124 652 | 124 652 |
| Total time and savings deposits | 320,192 | 320 192 |
| Total deposits in foreign offices* | 206 529 | NA |
| *Total deposits* | 651 373 | 444 844 |
| Federal funds purchased and securities sold under agreements to repurchase | 95,449 | 95 102 |
| Interest-bearing demand notes issued to the U.S. Treasury | 6 838 | 6 838 |
| Other liabilities for borrowed money | 24 340 | 12 222 |
| Mortgage indebtedness and liabilities for capitalized leases | 1 191 | 1 180 |
| Banks' liability on acceptances executed and outstanding | 40 670 | 33 849 |
| Other liabilities | 22,549 | 28 924 |
| *Total liabilities* | 842,411 | 622 959 |
| Subordinated notes and debentures | 2,971 | 2 728 |
| Preferred stock | 75 | 75 |
| Common stock | 8 008 | 8 008 |
| Surplus | 12 442 | 12 442 |
| Undivided profits | 21 870 | 21 870 |
| Reserve for contingencies and other capital reserves | 268 | 268 |
| *Total equity capital* | 42 662 | 42 662 |
| *Total liabilities and equity capital* | 888 044 | 668 349 |
| Number of banks | 133 | |

* For reporting purposes, foreign offices include Edge and Agreement subsidiaries located in the U.S. and branches in Puerto Rico, U.S. Virgin Islands and U.S. Trust Territories.

*Domestic office deposits of national banks, by states, March 31, 1983*
(Dollar amounts in millions)

| | Demand deposits of individuals, partnerships and corporations | All other demand deposits | NOW and automatic transfer accounts | All other savings accounts | Money market certificates of deposit | Time certificates of deposit of $100,000 or more | Other time deposits of $100,000 or more | All other time deposits | Total domestic deposits |
|---|---|---|---|---|---|---|---|---|---|
| All national banks | $159,947 | $39,728 | $38,109 | $198,222 | $99,366 | $142,227 | $26,293 | $82,516 | $786,408 |
| Alabama | 1,871 | 411 | 390 | 1,922 | 1,697 | 986 | 389 | 1,019 | 8,684 |
| Alaska | 556 | 83 | 19 | 471 | 114 | 208 | 2 | 49 | 1,502 |
| Arizona | 2,223 | 233 | 481 | 3,457 | 1,657 | 510 | 6 | 1,068 | 9,633 |
| Arkansas | 1,091 | 312 | 467 | 1,519 | 1,114 | 677 | 40 | 665 | 5,885 |
| California | 21,385 | 3,573 | 5,022 | 39,065 | 8,327 | 23,453 | 5,499 | 7,748 | 114,071 |
| Colorado | 2,762 | 719 | 635 | 3,031 | 815 | 2,334 | 100 | 872 | 11,267 |
| Connecticut | 1,843 | 552 | 404 | 1,989 | 804 | 516 | 77 | 598 | 6,783 |
| Delaware | 109 | 23 | 20 | 154 | 57 | 565 | 15 | 115 | 1,058 |
| District of Columbia | 2,036 | 322 | 457 | 1,485 | 340 | 1,736 | 169 | 216 | 6,760 |
| Florida | 7,946 | 1,467 | 2,608 | 10,677 | 4,676 | 3,076 | 264 | 2,482 | 33,197 |
| Georgia | 3,283 | 944 | 632 | 2,354 | 1,225 | 1,119 | 69 | 1,458 | 11,084 |
| Hawaii | 40 | 5 | 3 | 58 | 18 | 55 | 0 | 5 | 184 |
| Idaho | 560 | 72 | 286 | 973 | 812 | 469 | 3 | 506 | 3,681 |
| Illinois | 10,023 | 3,074 | 1,761 | 9,812 | 6,596 | 12,892 | 3,408 | 6,860 | 54,426 |
| Indiana | 2,463 | 788 | 794 | 3,634 | 3,455 | 1,665 | 52 | 2,688 | 15,538 |
| Iowa | 947 | 430 | 409 | 1,439 | 1,307 | 439 | 8 | 1,395 | 6,374 |
| Kansas | 1,177 | 399 | 439 | 1,578 | 1,366 | 890 | 64 | 992 | 6,904 |
| Kentucky | 1,458 | 340 | 485 | 1,478 | 1,590 | 943 | 38 | 1,182 | 7,514 |
| Louisiana | 2,844 | 691 | 530 | 2,372 | 1,532 | 2,693 | 14 | 975 | 11,650 |
| Maine | 263 | 41 | 142 | 363 | 253 | 45 | 2 | 81 | 1,190 |
| Maryland | 2,189 | 334 | 322 | 2,760 | 1,011 | 520 | 19 | 1,200 | 8,354 |
| Massachusetts | 3,910 | 1,065 | 818 | 3,323 | 680 | 2,886 | 411 | 819 | 13,912 |
| Michigan | 4,264 | 1,027 | 800 | 7,074 | 4,708 | 3,191 | 57 | 2,535 | 23,658 |
| Minnesota | 3,188 | 1,021 | 792 | 3,303 | 2,244 | 3,606 | 370 | 2,658 | 17,181 |
| Mississippi | 1,005 | 301 | 253 | 1,125 | 945 | 791 | 15 | 866 | 5,301 |
| Missouri | 2,630 | 1,197 | 560 | 1,889 | 1,560 | 2,736 | 151 | 1,102 | 11,826 |
| Montana | 398 | 79 | 220 | 683 | 721 | 245 | 6 | 401 | 2,754 |
| Nebraska | 1,016 | 479 | 473 | 1,124 | 1,451 | 553 | 7 | 1,183 | 6,285 |
| Nevada | 618 | 58 | 175 | 642 | 330 | 457 | 1 | 143 | 2,424 |
| New Hampshire | 354 | 56 | 192 | 632 | 194 | 140 | 2 | 189 | 1,759 |
| New Jersey | 5,214 | 1,004 | 837 | 7,123 | 3,364 | 1,572 | 74 | 2,697 | 21,885 |
| New Mexico | 668 | 137 | 176 | 1,193 | 519 | 1,002 | 9 | 394 | 4,098 |
| New York | 18,851 | 5,943 | 2,679 | 18,343 | 6,908 | 16,457 | 10,263 | 6,026 | 85,468 |
| North Carolina | 3,252 | 491 | 998 | 3,953 | 1,811 | 1,278 | 132 | 1,860 | 13,776 |
| North Dakota | 306 | 46 | 192 | 544 | 524 | 182 | 5 | 560 | 2,358 |
| Ohio | 5,758 | 980 | 1,760 | 8,938 | 5,048 | 2,998 | 133 | 5,211 | 30,826 |
| Oklahoma | 2,804 | 743 | 627 | 2,554 | 2,352 | 5,149 | 31 | 1,158 | 15,416 |
| Oregon | 1,404 | 229 | 804 | 2,412 | 1,380 | 749 | | 924 | 7,902 |
| Pennsylvania | 7,465 | 1,679 | 1,556 | 12,160 | 6,064 | 6,452 | 366 | 6,161 | 41,902 |
| Rhode Island | 693 | 122 | 128 | 998 | 493 | 571 | 77 | 460 | 3,541 |
| South Carolina | 1,250 | 223 | 437 | 1,231 | 572 | 248 | 1 | 550 | 4,511 |
| South Dakota | 371 | 56 | 249 | 716 | 755 | 1,914 | 1 | 972 | 5,033 |
| Tennessee | 2,011 | 871 | 581 | 2,627 | 2,148 | 1,091 | 24 | 1,123 | 10,476 |
| Texas | 15,879 | 5,381 | 3,351 | 11,888 | 7,381 | 26,126 | 3,282 | 4,614 | 77,902 |
| Utah | 770 | 140 | 262 | 964 | 642 | 831 | 5 | 295 | 3,909 |
| Vermont | 88 | 14 | 40 | 234 | 90 | 22 | 8 | 116 | 611 |
| Virginia | 2,344 | 290 | 814 | 2,760 | 2,205 | 915 | 62 | 2,218 | 11,609 |
| Washington | 3,468 | 567 | 1,219 | 4,455 | 2,344 | 2,248 | 331 | 2,187 | 16,817 |
| West Virginia | 835 | 168 | 250 | 1,556 | 1,324 | 404 | 16 | 1,031 | 5,583 |
| Wisconsin | 1,701 | 465 | 427 | 2,616 | 1,475 | 1,308 | 41 | 1,672 | 9,705 |
| Wyoming | 363 | 87 | 134 | 572 | 371 | 317 | 177 | 221 | [illegible] |
| District of Columbia—all* | 2,055 | 324 | 460 | 1,509 | 347 | 1,741 | 169 | 216 | [illegible] |

* Includes national and nonnational banks in the District of Columbia, all of which are supervised by the [illegible]

NOTE: Dashes indicate amounts of less than $500,000. Figures may not add to totals due to rounding.

## *Domestic office loans of national banks, by states, March 31, 1983*

(Dollar amounts in millions)

| | *Total loans gross* | *Loans secured by real estate* | *Loans to financial institutions* | *Loans to purchase or carry securities* | *Loans to farmers* | *Commercial and industrial loans* | *Personal loans to individuals* | *Other loans* | *Total loans less unearned income* |
|---|---|---|---|---|---|---|---|---|---|
| All national banks | $598 993 | $174 997 | $42 154 | $6,911 | $17,113 | $229,134 | $109,556 | $19,128 | $589,956 |
| Alabama | 5 335 | 1 532 | 220 | 18 | 80 | 1 766 | 1,581 | 138 | 5 089 |
| Alaska | 809 | 304 | 1 | — | 21 | 325 | 155 | 4 | 805 |
| Arizona | 6 748 | 2 054 | 386 | 3 | 414 | 1,886 | 1,921 | 84 | 6,658 |
| Arkansas | 3 797 | 1 254 | 279 | 85 | 153 | 1 331 | 619 | 76 | 3,721 |
| California | 100 273 | 39 387 | 6 522 | 925 | 3,283 | 31,561 | 14 269 | 4,327 | 100,053 |
| Colorado | 8 215 | 2 524 | 225 | 102 | 539 | 3,033 | 1 616 | 177 | 8,166 |
| Connecticut | 5 270 | 1 663 | 390 | 9 | 16 | 2,001 | 1,072 | 118 | 5,132 |
| Delaware | 1 283 | 128 | 2 | 2 | 1 | 77 | 1,070 | 3 | 1,281 |
| District of Columbia | 4 507 | 1,663 | 323 | 13 | — | 1,631 | 585 | 291 | 4,446 |
| Florida | 18 102 | 7,314 | 570 | 44 | 71 | 4,572 | 5,195 | 336 | 17,454 |
| Georgia | 7 907 | 1 910 | 390 | 33 | 47 | 2,917 | 2,459 | 151 | 7,618 |
| Hawaii | 91 | 41 | 0 | 0 | — | 27 | 23 | — | 91 |
| Idaho | 2 796 | 837 | 213 | 21 | 266 | 779 | 649 | 31 | 2,758 |
| Illinois | 53 484 | 11,061 | 5,355 | 987 | 1,093 | 26,930 | 6,279 | 1,779 | 53,041 |
| Indiana | 9 715 | 3,660 | 842 | 104 | 255 | 2,569 | 2,136 | 149 | 9,473 |
| Iowa | 3 721 | 1,031 | 118 | 76 | 784 | 932 | 724 | 58 | 3,702 |
| Kansas | 3,948 | 751 | 164 | 85 | 758 | 1,293 | 833 | 65 | 3 909 |
| Kentucky | 4 930 | 1,521 | 310 | 36 | 218 | 1,524 | 1,239 | 82 | 4,793 |
| Louisiana | 6,818 | 1 915 | 207 | 52 | 48 | 2,725 | 1,703 | 168 | 6,628 |
| Maine | 675 | 289 | 2 | 0 | 3 | 206 | 173 | 3 | 674 |
| Maryland | 5,187 | 2,280 | 157 | 26 | 37 | 1 628 | 1,002 | 58 | 5,109 |
| Massachusetts | 11,925 | 2,478 | 1,324 | 88 | 44 | 6,053 | 1,746 | 194 | 11,741 |
| Michigan | 15,779 | 5,442 | 1,139 | 29 | 141 | 5,876 | 2,387 | 766 | 15,704 |
| Minnesota | 14 067 | 3,818 | 741 | 477 | 780 | 5,852 | 1,733 | 667 | 13,930 |
| Mississippi | 3,247 | 1 075 | 122 | 60 | 82 | 980 | 843 | 84 | 3,127 |
| Missouri | 8,039 | 1 851 | 886 | 178 | 359 | 3 081 | 1,542 | 142 | 7,960 |
| Montana | 1,939 | 470 | 53 | 1 | 306 | 671 | 421 | 17 | 1,893 |
| Nebraska | 4 001 | 585 | 158 | 119 | 1,333 | 972 | 731 | 103 | 3,975 |
| Nevada | 1 506 | 695 | 19 | — | 14 | 365 | 409 | 4 | 1,452 |
| New Hampshire | 1 245 | 433 | 12 | 1 | 1 | 398 | 391 | 10 | 1,180 |
| New Jersey | 13,306 | 5,263 | 495 | 20 | 7 | 4,274 | 2,987 | 259 | 12,939 |
| New Mexico | 2,409 | 586 | 58 | 6 | 140 | 951 | 616 | 52 | 2,339 |
| New York | 76 862 | 14,563 | 10,168 | 1,329 | 484 | 34,237 | 11,826 | 4,255 | 75,764 |
| North Carolina | 10,571 | 2,557 | 611 | 51 | 153 | 4 123 | 2,887 | 190 | 10,371 |
| North Dakota | 1,408 | 328 | 29 | 1 | 313 | 483 | 242 | 14 | 1,400 |
| Ohio | 20 039 | 6,973 | 937 | 71 | 313 | 5 838 | 5,633 | 274 | 19 394 |
| Oklahoma | 10 343 | 2,600 | 415 | 221 | 694 | 4,310 | 1,554 | 550 | 10,193 |
| Oregon | 5 720 | 2,009 | 508 | 10 | 191 | 1,905 | 1,020 | 78 | 5,668 |
| Pennsylvania | 29 833 | 8,663 | 3 587 | 444 | 183 | 10,852 | 5,388 | 716 | 29,160 |
| Rhode Island | 2,907 | 893 | 236 | 13 | — | 1,201 | 440 | 124 | 2,868 |
| South Carolina | 2,615 | 630 | 91 | 3 | 43 | 852 | 948 | 49 | 2,514 |
| South Dakota | 4 786 | 460 | 20 | 3 | 672 | 575 | 3,023 | 33 | 4,760 |
| Tennessee | 6 485 | 1 805 | 364 | 61 | 81 | 2,462 | 1,502 | 211 | 6,340 |
| Texas | 60 687 | 15,021 | 2 479 | 875 | 1,601 | 31,209 | 7,945 | 1 558 | 59,775 |
| Utah | 2 866 | 1 226 | 24 | 24 | 68 | 849 | 645 | 31 | 2,834 |
| Vermont | 429 | 215 | 1 | 0 | 10 | 110 | 89 | 4 | 428 |
| Virginia | 8 073 | 3 160 | 161 | 38 | 124 | 1 982 | 2,460 | 148 | 7 698 |
| Washington | 13 140 | 3 859 | 454 | 74 | 488 | 5 499 | 2,439 | 327 | 13 028 |
| West Virginia | 2 951 | 1 254 | 85 | 10 | 11 | 564 | 995 | 33 | 2 804 |
| Wisconsin | 6 812 | 2 589 | 293 | 81 | 226 | 2,381 | 1,115 | 128 | 6 742 |
| Wyoming | 1 392 | 381 | 11 | 3 | 164 | 519 | 299 | 15 | 1,377 |
| District of Columbia banks* | 4 541 | 1 684 | 323 | 13 | — | 1 636 | 593 | 291 | 4 478 |

*Nonbankers and nonnational banks in the District of Columbia all of which are supervised by the Comptroller of the Currency

*NOTE: Dashes indicate amounts of less than $500 000 Figures may not add to totals due to rounding

*Outstanding balances, credit cards and related plans of national banks, March 31, 1983*
(Dollar amounts in thousands)

| | Total number of national banks | Credit cards and other related credit plans | |
|---|---|---|---|
| | | Number of national banks | Outstanding volume |
| All national banks | 4,656 | 1,927 | $26,537,631 |
| Alabama | 90 | 27 | 145,769 |
| Alaska | 5 | 4 | 47,245 |
| Arizona | 3 | 2 | 467,655 |
| Arkansas | 71 | 9 | 30,519 |
| California | 111 | 79 | 4,705,506 |
| Colorado | 188 | 148 | 465,149 |
| Connecticut | 14 | 7 | 250,196 |
| Delaware | 12 | 8 | 879,772 |
| District of Columbia | 16 | 15 | 107,800 |
| Florida | 194 | 75 | 882,688 |
| Georgia | 63 | 27 | 582,887 |
| Hawaii | 3 | 1 | 3,055 |
| Idaho | 7 | 4 | 77,535 |
| Illinois | 404 | 159 | 2,573,044 |
| Indiana | 115 | 72 | 312,304 |
| Iowa | 99 | 41 | 222,694 |
| Kansas | 151 | 25 | 106,142 |
| Kentucky | 77 | 28 | 147,257 |
| Louisiana | 54 | 17 | 221,301 |
| Maine | 10 | 9 | 29,628 |
| Maryland | 26 | 11 | 62,845 |
| Massachusetts | 69 | 54 | 368,332 |
| Michigan | 124 | 82 | 822,288 |
| Minnesota | 202 | 125 | 148,952 |
| Mississippi | 35 | 3 | 69,725 |
| Missouri | 121 | 42 | 503,787 |
| Montana | 55 | 27 | 17,025 |
| Nebraska | 121 | 31 | 153,676 |
| Nevada | 5 | 2 | 51,368 |
| New Hampshire | 31 | 24 | 40,695 |
| New Jersey | 80 | 53 | 331,298 |
| New Mexico | 42 | 8 | 85,946 |
| New York | 111 | 61 | 3,494,522 |
| North Carolina | 20 | 17 | 527,437 |
| North Dakota | 40 | 21 | 10,694 |
| Ohio | 161 | 108 | 837,695 |
| Oklahoma | 200 | 47 | 159,998 |
| Oregon | 7 | 5 | 228,105 |
| Pennsylvania | 203 | 50 | 566,373 |
| Rhode Island | 5 | 4 | 89,389 |
| South Carolina | 17 | 13 | 149,760 |
| South Dakota | 34 | 11 | 2,701,341 |
| Tennessee | 65 | 11 | 221,088 |
| Texas | 807 | 179 | 973,326 |
| Utah | 7 | 4 | 83,360 |
| Vermont | 11 | 2 | 7,390 |
| Virginia | 60 | 23 | 459,407 |
| Washington | 23 | 10 | 733,038 |
| West Virginia | 110 | 18 | 52,387 |
| Wisconsin | 126† | 100 | 321,463 |
| Wyoming | 51 | 24 | 6,781 |
| District of Columbia only* | 17 | 15 | 107,800 |

* Includes the nonnational bank in the District of Columbia, which is also supervised by the Comptroller of the Currency.
† Does not include a non-insured trust bank in Wisconsin.

*National banks engaged in lease financing, March 31, 1983*
(Dollar amounts in thousands)

| | Total number of national banks | Number of banks engaged in lease financing | Amounts of lease financing at domestic offices |
|---|---|---|---|
| All national banks | 4 656 | 988 | $9,076 591 |
| Alabama | 90 | 17 | 35 116 |
| Alaska | 5 | 2 | 4 879 |
| Arizona | 3 | 1 | 103,120 |
| Arkansas | 71 | 16 | 23,497 |
| California | 111 | 30 | 3,345,274 |
| Colorado | 188 | 67 | 125,208 |
| Connecticut | 14 | 2 | 48 941 |
| Delaware | 12 | 0 | 0 |
| District of Columbia | 16 | 6 | 27,687 |
| Florida | 194 | 29 | 70,292 |
| Georgia | 63 | 14 | 114,586 |
| Hawaii | 3 | 1 | 1,823 |
| Idaho | 7 | 4 | 61 597 |
| Illinois | 404 | 75 | 158,336 |
| Indiana | 115 | 31 | 152,280 |
| Iowa | 99 | 25 | 12,239 |
| Kansas | 151 | 30 | 13,331 |
| Kentucky | 77 | 13 | 136,833 |
| Louisiana | 54 | 11 | 54,813 |
| Maine | 10 | 0 | 0 |
| Maryland | 26 | 8 | 86,869 |
| Massachusetts | 69 | 16 | 478,836 |
| Michigan | 124 | 18 | 246,990 |
| Minnesota | 202 | 52 | 158,557 |
| Mississippi | 35 | 6 | 12,000 |
| Missouri | 121 | 29 | 107,401 |
| Montana | 55 | 16 | 6,040 |
| Nebraska | 121 | 40 | 64,927 |
| Nevada | 5 | 2 | 26,704 |
| New Hampshire | 31 | 2 | 824 |
| New Jersey | 80 | 14 | 116,403 |
| New Mexico | 42 | 16 | 4,123 |
| New York | 111 | 22 | 594,939 |
| North Carolina | 20 | 6 | 299,609 |
| North Dakota | 40 | 14 | 6,917 |
| Ohio | 161 | 55 | 444,159 |
| Oklahoma | 200 | 76 | 39,579 |
| Oregon | 7 | 2 | 71,857 |
| Pennsylvania | 203 | 15 | 352,855 |
| Rhode Island | 5 | 2 | 194,285 |
| South Carolina | 17 | 2 | 11,774 |
| South Dakota | 34 | 8 | 1,602 |
| Tennessee | 65 | 19 | 47,853 |
| Texas | 807 | 96 | 396,604 |
| Utah | 7 | 3 | 103,830 |
| Vermont | 11 | 0 | 0 |
| Virginia | 60 | 5 | 62,759 |
| Washington | 23 | 9 | 561,939 |
| West Virginia | 110 | 13 | 8 573 |
| Wisconsin | 126† | 33 | 75,478 |
| Wyoming | 51 | 15 | 2 453 |
| District of Columbia—all* | 17 | 6 | 27 687 |

* Includes the national bank in the District of Columbia which is also supervised by the Comptroller of the Currency
† Does not include a noninsured trust bank in Wisconsin

## *Average banks' percent of loans past due, by assets*

| | Assets in millions of dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Less than $10* | *$10 to $20* | *$20 to $25* | *$25 to $40* | *$40 to $100* | *$100 to $300* | *$300 to $900* | *$900 to $5 000* | *$5 000 or more* | *All national banks* |
| Real estate | | | | | | | | | | |
| December 1982 | 4 3 | 4 4 | 4 5 | 4 3 | 4 0 | 4 6 | 4 8 | 5 4 | 6 0 | 4 4 |
| March 1983 | 3 3 | 4 3 | 4 7 | 4 4 | 4 1 | 4 6 | 5 0 | 5 6 | 6 8 | 4 3 |
| Commercial and industrial | | | | | | | | | | |
| December 1982 | 4 5 | 5.1 | 4 8 | 5 2 | 4 9 | 5 9 | 5 8 | 6 5 | 6 5 | 5 2 |
| March 1983 | 4 5 | 5 1 | 5 3 | 5 1 | 4 9 | 6.0 | 6 4 | 6 6 | 7 5 | 5 3 |
| Personal | | | | | | | | | | |
| December 1982 | 3.1 | 3 6 | 3 9 | 3 7 | 3 4 | 3 1 | 2 7 | 2 8 | 2 7 | 3 4 |
| March 1983 | 2 6 | 3 6 | 3 8 | 3.5 | 3 3 | 2 9 | 2 7 | 2 8 | 2 4 | 3 3 |
| All other | | | | | | | | | | |
| December 1982 | 3.0 | 3.4 | 3 3 | 3 3 | 3.3 | 3 5 | 3 7 | 3 7 | 4 7 | 3 4 |
| March 1983 | 2 6 | 3 4 | 4 1 | 3 3 | 3 8 | 4 3 | 4 0 | 3 6 | 5 6 | 3 7 |
| Total loans | | | | | | | | | | |
| December 1982 | 3.5 | 4 3 | 4 5 | 4 6 | 4 5 | 4 5 | 4 5 | 4 9 | 5 4 | 4 4 |
| March 1983 | 3 0 | 4.5 | 4 9 | 4 8 | 4 7 | 4 6 | 4 9 | 5 1 | 6 2 | 4 6 |

See notes at end of tables

## *Average banks' percent of loans past due at foreign offices, by assets*

| | Assets in millions of dollars | | | |
|---|---|---|---|---|
| | *$300 to $900* | *$900 to $5,000* | *$5,000 or more* | *All national banks* |
| All foreign office loans | | | | |
| December 1982 | 6.9 | 8 5 | 5 6 | 7 6 |
| March 1983 | 11 5 | 8 9 | 5 7 | 8 4 |

NOTES:

These figures include non-accrual and past due loan and lease financing receivables.

*Past due loans*—These items are (1) single payment notes 30 days or more past maturity; (2) single payment notes with interest due at specified intervals and demand notes on which interest is due and unpaid for 30 days or more, (3) amortizing real estate loans and closed-end monthly installment loans and lease financing receivables in arrears two or more monthly payments, or, if scheduled other than monthly, when one scheduled payment is due and unpaid for 30 days or more; (4) open-end credit accounts on which the customer has not made the minimum monthly payment for two or more billing cycles; and (5) unplanned overdrafts outstanding 30 days or more after origination.

*Non-accrual loans*—These items are (1) those maintained on a cash basis because of deterioration in the financial position of the borrower; and (2) those on which principal or interest has been in default for a period of 90 days or more unless the obligation is both well secured and in the process of collection, in which case it is considered merely past due.

*Average banks' percent of loans past due*—Percentages reported are averages of individual banks' percentages of loans past due with each bank accorded the same weight regardless of size; those individual bank percentages are based on dollar value of loans past due. All figures are as of the last day of the month indicated

*Loan categories*—The loan categories for this table correspond to those for the report of condition except for "Other Loans." "Other loans" includes loans to financial institutions, loans for purchasing or carrying securities loans to farmers and all other loans not included in the specified categories

Data for prior periods, based on slightly different definitions, may be found in the *Quarterly Journal* Volume 2 Number 1, pp. 229–232.

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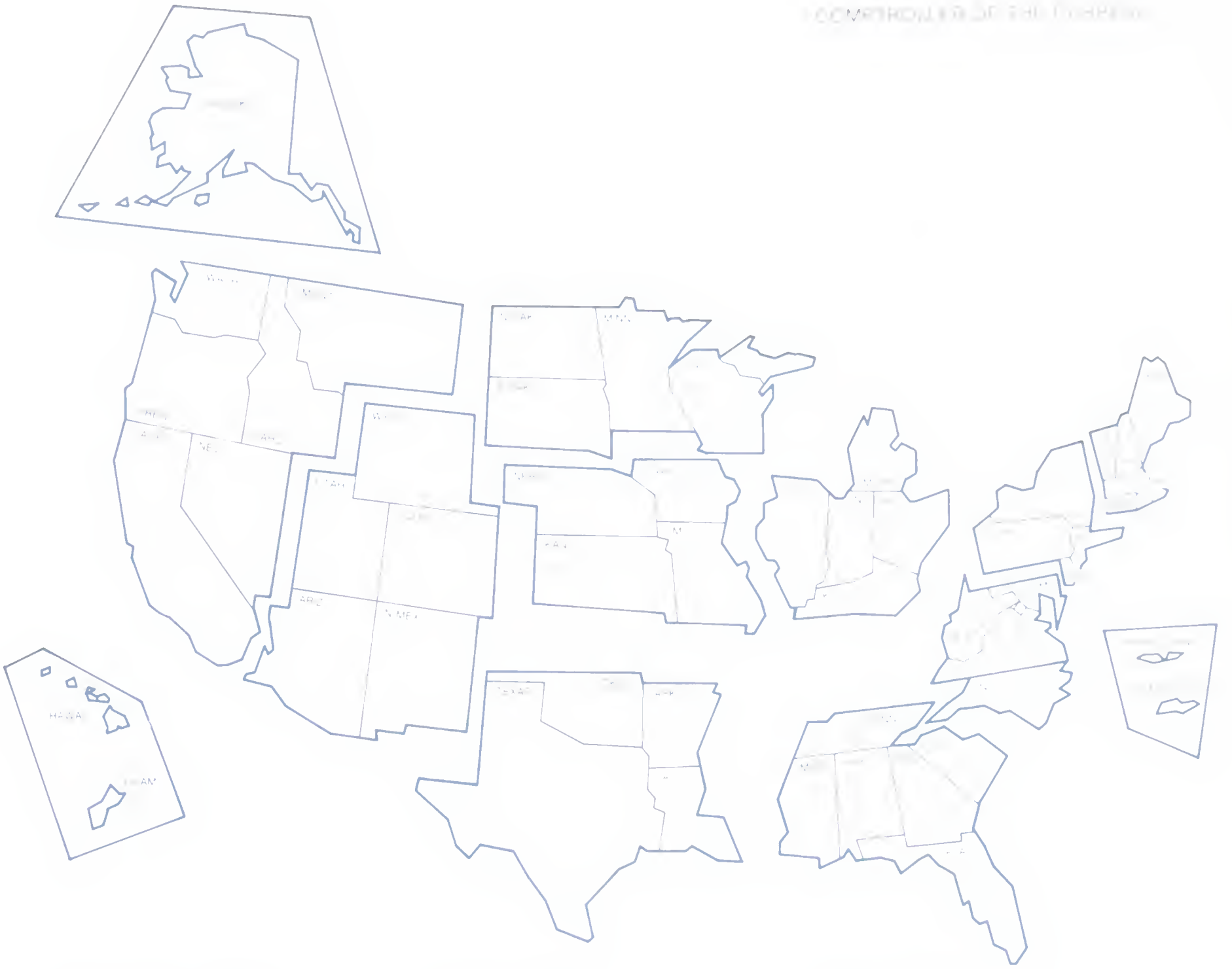

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